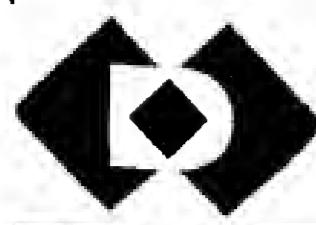


FINANCIAL TIMES



Japanese banks
The lessons
of Daiwa
Page 17



Israel
An economy
rediscovered
Page 16



Thalidomide
Joining the fight
against Aids
Page 13

Today's surveys
Business locations
Luxembourg
Section III and Pages 9-12



World Business Newspaper

D8523A

World markets fall as political strife hits currencies

Stock markets fell round the world as political concerns in Italy and France caused investors to flock into the D-Mark and Swiss franc, and sent the dollar to its lowest level in nearly three months. The focus of events was in Europe, particularly Italy, where concern that a no-confidence vote could unseat the prime minister, Lamberto Dini, and force early elections, prompted a flight out of the lira. Page 16; Paris' rule to rule on renting of Chirac's flat. Page 3; Forex surge masks maturing market. Page 6; Currencies, Page 31; London stocks, Page 36; World stocks, Page 40

GEC Alsthom, the joint venture between the General Electric Company of the UK and Alcatel Alsthom of France, is in talks with Daimler-Benz over buying the electrical power operations of AEG, the loss-making subsidiary of Daimler. Page 19; Alcatel in 8550m radio satellite deal. Page 4

OECD lowers Japan growth forecast
The Organisation for Economic Co-operation and Development lowered its forecast for Japanese growth in 1995 by a full percentage point to 0.3 per cent. Kumihiro Shigebara (left), the OECD's chief economist, had warned of the radical downgrades because of the yen's strength, and continued weak consumer demand. Page 18

Glaxo Wellcome shares rose after the world's biggest drugs maker said it had settled a patent dispute over Zantac, the ulcer drug which is the world's biggest-selling medicine. Page 18 and Lex

Spanish budget plans attacked: The Spanish government's budget plans for next year were vigorously attacked in a report which raised serious doubts about the country's chances of meeting the conditions for European monetary union. Page 2

Boost for Japanese brokers: The gap between Japan's leading securities companies and the rest continues to widen with the big four brokerages - Nomura, Nikko, Daiwa and Yamatichi - recording improved profits. Page 19; Lex, Page 18

British gives WTO priorities: Europe's trade commissioner Sir Leon Brittan called on World Trade Organisation members to make investment rules, competition policy, the environment and labour standards the top priorities for future negotiations. Page 6

Berlin result creates confusion: Germany's main political parties have been thrown into confusion over how to respond to the surge of support for the Party of Democratic Socialism, the successor to the former east German communist party. Page 2

Norsk Hydro, Norway's biggest quoted company, announced a doubling of net income to Nkr5.77bn (\$535m) at the nine-month stage, after an unexpectedly strong third quarter when profits jumped from Nkr1.1bn to Nkr1.65bn. Page 20

Former Daiwa man admits cover-up: A former senior Daiwa Bank executive has admitted the bank's management attempted to cover up bond-trading losses accumulated by a dealer in its New York branch. Page 8; Hidden behind a screen of stability, Page 17

S Korean leader orders probe: South Korean President Kim Young-sam ordered a "thorough" investigation into allegations that his predecessor, Roh Tae-woo, controls a Won 400bn (\$320m) political slush fund. Page 5

Israel raises lending rates: Israel's central bank signalled a rise in its key lending rate, reflecting growing concern about the expansion of the money supply, a significant increase in the budget deficit and continued inflationary expectations in the rapidly growing economy. Page 4; State of attraction, Page 16

Aung San Suu Kyi barred: Burmese opposition leader Aung San Suu Kyi has been denied permission by the country's military government to resume the leadership of the political party which she helped to found. Page 5

Nippon Credit Bank, labouring under a burden of bad loans, announced plans for a radical retrenchment of its global operations. Page 25

Saddam increases Iraqi rations: President Saddam Hussein, rewarding Iraqis for his overwhelming referendum victory last week, has increased their food rations and promised parliamentary elections early next year.

STOCK MARKET INDICES

	Stocks	Gold
New York Comex	4,774.27	(+2.59)
Dow Jones Ind Av	1,036.46	(-3.07)
NASDAQ Composite	1,721.14	(-18.58)
London	2,197.42	(+63.07)
CA200	3,331.5	(+19.9)
DAX	18,158.34	(-1.09)
FTSE 100	18,158.34	(-1.09)
Nikkei		

US LENDING RATES

	3-mo Interbank	5%
USC 3-mo Interbank	5.4%	(same)
USC 10 yr SHB	10.12%	(10.12)
France 10 yr OAT	10.12%	(10.12)
Germany 10 yr Bund	10.12%	(10.12)
Japan 10 yr JGB	112.73	(113.03)

OTHER RATES

	1-mo Interbank	5%
USC 3-mo Interbank	5.4%	(same)
USC 10 yr SHB	10.12%	(10.12)
France 10 yr OAT	10.12%	(10.12)
Germany 10 yr Bund	10.12%	(10.12)
Japan 10 yr JGB	112.73	(113.03)

NORTH SEA OIL (Argus)

	15-day (Dec)	15-day (T)
Brent	\$15.87	(15.79)

STOCK MARKET INDICES

	Stocks	Gold
Austria	902.05	Malta
Bahrain	112.29	Morocco
Belgium	87.70	Morocco
Denmark	110.00	Morocco
Egypt	12.10	Morocco
Finland	10.55	Morocco
Greece	10.75	Morocco
Iceland	10.20	Morocco
Ireland	10.10	Morocco
Iraq	10.10	Morocco
Ireland	10.10	Morocco
Italy	10.10	Morocco
Japan	10.10	Morocco
Lebanon	10.10	Morocco
Malta	10.10	Morocco
Morocco	10.10	Morocco
Norway	10.10	Morocco
Portugal	10.10	Morocco
Spain	10.10	Morocco
Syria	10.10	Morocco
Turkey	10.10	Morocco
UAE	10.10	Morocco
Yemen	10.10	Morocco

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Malta	10.10	Morocco
Morocco	10.10	Morocco
Norway	10.10	Morocco
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Spain	10.10	Morocco
Syria	10.10	Morocco
Turkey	10.10	Morocco
UAE	10.10	Morocco
Yemen	10.10	Morocco

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Spain	10.10	Morocco
Syria	10.10	Morocco
Turkey	10.10	Morocco
UAE	10.10	Morocco
Yemen	10.10	Morocco

STOCK MARKET INDICES

	Stocks	Gold

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NEWS: EUROPE

Ministers wary of Brussels' jobs goal

By Lionel Barber
In Luxembourg

EU finance ministers yesterday distanced themselves from a European Commission report which suggests that it is possible to cut unemployment in half by the end of the century. At a meeting in Luxembourg, the UK and French ministers warned against over-optimistic growth projections, echoing other ministerial reservations about the chances of creating 11m jobs in the next five years.

The report is part of a Brussels campaign to persuade the European public that the short-term pain of budget deficit reduction required by the Maastricht treaty is worth the long-term goal of monetary union. Ministers welcomed other proposals to stimulate jobs through better training, reduction of employers' nowage costs and more labour market mobility.

The challenge of reconciling stiff public spending cuts with job protection and creation is being felt in all member states, but no more so than in France which remains committed to a single currency with Germany. Mr Kenneth Clarke, UK chancellor, said there was a "90-90"

chance of Emu going ahead on schedule in 1999, but much turned on France achieving its budget deficit target of 3 per cent of gross domestic product.

The present debate on Emu keeps going back and forth. I think the British position is quite sensible," Mr Clarke said.

"We will wait and see if other member states wish to join Emu... and then Britain will decide," Mr Clarke added.

Mr Jean Arthuis, new French finance minister, sought to dispel market doubts about government promises to reduce spending with a vigorous attack on the borrowing habits of Socialist predecessors and their accounting practices which did not give a "faithful" picture.

Mr Arthuis said the government's commitment to reduce spending and public indebtedness enjoyed cross-party backing.

This included the strongest supporters of national sovereignty, a veiled reference to Mr Philippe Séguin and his Gaullist followers who are sceptical about Emu.

But Mr Arthuis said he was "impatient" for an interest rate cut. Separately, EU ministers

endorsed the Finnish government's programme for meeting the Maastricht treaty's criteria for Emu by 1996, through spending cuts amounting to 10 per cent of gross domestic product since 1991.

Mr Iiro Viinanen, Finnish finance minister, said it was a "great day for Finland" to receive support for its austerity programme, which aims virtually to eliminate the deficit by next year and move to surplus in 1997.

Ministers noted the Finnish markka had reached a "more appropriate level" following the plunge in the early 1990s when the government was forced to abandon its informal link to the Ecu. But Mr Viinanen ruled out an early move into Europe's exchange rate mechanism.

He also raised concerns about the Swedish krona, saying Finland could not accept Stockholm fixing its currency at "a very low level" if it proceeded with plans to enter the ERM.

Referring to competition in the forest, paper and metal industries from Sweden, Mr Viinanen said: "This would not be fair play, and Sweden understands this very well."

Bulgarian N-plant dispute dominates conference

A pan-European meeting in Sofia of environment ministers, bankers and financiers has sparked heated debates over the fate of Bulgaria's controversial nuclear power plant at Kozloduy.

For months Bulgaria has been under pressure from the Group of Seven leading industrial countries, especially France, not to restart the oldest of its six reactors at Kozloduy on the river Danube.

The 440 megawatt Soviet-made reactor had been closed for upgrading but was restarted earlier this month despite western fears that it could trigger a meltdown disaster of Chernobyl proportions. Today 630

officials attending the conference are due to visit the plant. Some local environmental groups have joined the chorus of western non-governmental organisations (NGOs) which appealed to the west for funds to enable eastern Europe's most dangerous nuclear reactors to be shut down.

Last weekend the NGOs, including Friends of the Earth, Greenpeace, and the World Wildlife Fund staged their own forum in Sofia hoping to influence the ministerial Environment for Europe meeting.

Bulgaria's Socialist government, however, does not seem inclined to bend international pressure and

Theodore Troev reports from Sofia on the Environment for Europe meeting

shut down reactor number one as this would lead to severe power cuts this winter.

It claims the reactor is already safe after its upgrading through the joint efforts of experts from the International Atomic Energy Agency and the World Association of Nuclear Operators.

Apart from the positive results of recent studies made by Bulgarian scientific institutes and the Russian designer, Gidropress, Sofia yester-

day came up with another argument in defence of Kozloduy. The government revealed that Energia, a local insurance company, has re-insured the nuclear plant with western groups in London, including Lloyds and the American International Group.

According to Energia officials, experts from the UK's independent Engineering Services have checked Kozloduy, as required by the foreign insurance companies, and have

judged the plant to be reliable. Bulgarian commentators say that France is putting most pressure on Sofia to divert international attention from this week's debates in the European Commission on the French nuclear tests in Mururoa.

Bulgarian energy sector officials also claim that western economic interests are the main reasons for the anti-Kozloduy campaign.

Disrupting the operation of the plant, which supplies more than 40 per cent of Bulgaria's energy needs, would make the country dependent on energy imports, while Electricité de France is interested in the nuclear power safety.

Yesterday Bulgaria and Switzerland signed a debt-for-environment swap agreement worth \$17.3m, or 20 per cent of Sofia's official debt to Switzerland.

Mr Georgi Georgiev, Bulgaria's environment minister, suggested similar debt swaps with other creditors would enhance nuclear safety.

EU-wide drugs approval begins

By Daniel Green in London

A new era in health regulation began yesterday with the first pan-European approval of a drug under the 10-month-old medicine regulation.

The drug, a fertility treatment called Gonal-f made by Swiss drugs company Ares-Serono, now has a single commercial licence covering all 15 member states. Previously, drug companies had to apply for permits from each member state for every new drug.

As well as eliminating most of the paperwork, the new procedure should make drug approvals much faster. The London-based European Medicines Evaluation Agency, which co-ordinates the new approval scheme, has promised that decisions will be made within 300 days of a drug's submission.

Several EU member states have a reputation for taking several years to consider drug licence applications.

Mr Martin Bangemann, industry commissioner, said that the decision showed the EU had taken an important step towards creating a single market. "This new procedure eliminates unnecessary administrative barriers," he said.

But the pharmaceutical sector was still hampered by different national social security systems and price controls, he said. "In the interest of the consumer and the European pharmaceutical producer, the Commission shall continue its efforts to eliminate these barriers," he said.

EU legislation requires all biotechnology medicines to go through the new centralised approval system. After a three-year transition period, the procedure may be extended to cover all drugs.

Mr Fernand Sauer, the agency's executive director, said that the number of drug submissions to the agency had already exceeded expectations. Of the 25 new applications received since May, only nine were biotechnology products. The rest are drugs whose makers had the option of submitting to individual countries.

Unlike the US Food and Drug Administration, the EMEA does not evaluate the drugs directly. It co-ordinates teams of experts from member states who examine a dossier of data gathered from clinical trials submitted by drug manufacturers.

Mr Fernand Sauer, the agency's executive director, said that this created competition between agencies, each eager to show that it could meet speed and quality targets set by the EMEA. The agency then submits its recommendations to the European Commission for final approval.

The EMEA was established in London in February 1995 and has already become a factor in pharmaceutical companies' location decisions. Last week, Mr Svein Aaser, the chief executive of Norwegian company, Hafslund Nycomed, which has agreed to merge with Ixax of the US, said that the EMEA's presence helped it decide to site the headquarters of the new company in London.

Berlin ex-communists enter the mainstream

By Judy Dempsey in Berlin

Germany's main political parties were yesterday thrown into confusion over how to respond to the surge of support for the Party of Democratic Socialism (PDS), the successors to the former east German communist party.

The PDS, which polled 14.6 per cent of the vote in the Berlin city elections on Sunday, is now the third largest party in the city.

Its 36 per cent support in east Berlin established it as the leftwing party there, with the Social Democrats (SPD) beaten into third place, behind Chancellor Helmut Kohl's Christian Democrats (CDU).

The SPD, whose vote plummeted by more than seven per cent, will find it difficult to check the rise of the PDS until it

ends the internal bickering at the national level which was blamed for the party's miserable performance.

The CDU and SPD said yesterday they would try to form another grand coalition, damping speculation that sections of the Berlin SPD might be tempted to form an SPD/Green coalition.

Mr Rudolf Scharping, the SPD leader, opposes any such coalition since it would depend on PDS support.

Like the CDU, the national SPD regards the PDS as a party of die-hard communists, even though the younger generation of the self-employed, intellectuals and managers in east Berlin voted for it as their first choice of a leftwing party.

But the strength of the PDS, and the Greens, may be symptomatic of a greater crisis facing the SPD and CDU in Berlin

and nationally.

According to Infas, the opinion poll specialists, voter turnout in Berlin - just over 68 per cent - indicated disillusionment with the established parties and a need for change, sentiments which the Greens and the PDS are tapping and whose electoral success poses a real dilemma for both Mr Scharping and Mr Kohl.

Mr Scharping has to decide whether to shift the party more to the left to win back disaffected SPD voters - more than 35,000 SPD Berliners defected to the Greens and 24,000 to the PDS - or else move to the right.

More than 29,000 SPD voters switched to the CDU, but 26,000 CDU voters switched to the SPD.

This was an indication of the ideological confusion between both parties. More than 90,000

from both the SPD and CDU abstained.

The longer the SPD delays in

deciding its future strategy, the more likely it will be for the Greens and the PDS to make even greater inroads in west and east Germany respectively, robbing the SPD of voters.

The liberal Free Democrats (FDP), Chancellor Helmut Kohl's junior coalition partner, failed to make any impact

and is in danger of being ground away in the west between the CDU and the Greens, and in the east between the CDU and the PDS," said Mr Thomas Kridiger, an SPD member of the Berlin parliament.

The liberal Free Democrats (FDP), Chancellor Helmut Kohl's junior coalition partner, failed to make any impact

in west or east Berlin, where it polled 1.1 per cent. City-wide, it failed to get re-elected to the Berlin parliament and is now represented in only four of the 16 state parliaments.

Even the CDU had little cause for jubilation. It remains the largest party but its support has fallen from 40.4 per cent in 1990 to 37.4 per cent, and it cannot rule alone.

Mr Kohl's Christian Democrats might have to look elsewhere for a junior coalition partner.

They could look towards the Greens. But analysts argue it is too soon, even in Berlin, for such a sea-change.

The solution might be another grand coalition and this could only benefit the Greens and the PDS.

Noisy parties woo silent majority

Ian Rodger reports on the electoral gains of the left and the right in Switzerland

Swiss politics will become much noisier following the surprisingly big advances made by the Social Democratic party and the rightwing People's party in Sunday's parliamentary elections.

But the polarisation of voter sentiment that brought about

the result may also lead to a quicker resolution of the two main issues facing the country - European integration and federal budget consolidation - than up to now has seemed likely.

At first glance, the overall changes seem modest. Indeed,

the four-party coalition that has ruled the country since 1989 appears to have been strengthened. It won a combined 163 of the 200 lower house seats, compared with 147 seats in 1991, while marginal parties, such as the Greens and the extreme rightwing parties lost ground.

But the dynamics within the coalition have changed dramatically.

Until now, the centrist parties, the Christian Democrats and the Radicals, have led the coalition, with 80 seats between them in the last parliament. They have been able, on most issues, to bring either the rightwing People's party or the Social Democrats along with them. Now the Social Democrats, with 54 seats, 12 more than they had in the last parliament, have displaced the Radicals as the coalition's strongest party. And the People's party raised its seat total from 25 to 30, almost equal to the 34 won by the Christian Democrats.

Observers agree that both

the People's party and the

Social Democrats increased

their support because of the unequivocal positions they have taken on two main issues.

The People's party, inspired

by the charismatic industrialist, Mr Christoph Blocher,

stood squarely against Switzerland joining the European Union, against liberalised distribution of hard drugs and for substantial spending cuts to balance the federal budget.

The Social Democrats made

clear they would fight equally hard for the preservation of social entitlements and for Switzerland participating in European integration.

In the previous parliament, Swiss politicians tried to avoid

these issues, particularly the European question, as they could see no way forward after a 1992 referendum in which a narrow majority of voters rejected the government's proposal to join the European Economic Area. In the new parliament, these issues are likely to become dominant, with both the People's party and the

Social Democrats defending their constituents' interests at every opportunity. In these circumstances, another call for the people to decide the Europe question could come sooner rather than later.

For all the heat that is likely to be generated in parliament from time to time, the possibility of a break-up of the coalition before the next elections in 1998 seems remote.

Mr Blocher, a protestor by

nature, might well be tempted at some point to lead his troops out of the coalition, but it is not clear that they would all follow. The traditional small-town conservative supporters of the People's party find it increasingly difficult to co-exist with Mr Blocher's strident anti-EU, anti-immigration, rural backers from German-speaking central and eastern Switzerland.

Mr Blocher himself seemed

quite relaxed about the probable effects of the polarisation.

It was a good thing that the

opposed views would now con-

front each other directly rather than having the coalition led by parties that did not wish to take a clear stand, he said on Swiss television. "But in the end we will always have to reach compromises."

The longer-term outlook may

be less encouraging. As Mr Roger de Weck, editor of Zurich's *Tages Anzeiger* newspaper, pointed out in an editorial yesterday, Mr Blocher's strident postures and rhetoric have driven French speakers away from the People's party and turned it into a German Swiss nationalistic force.

Up to now, part of the strength of Swiss democracy has been the ability of the main national political parties to appeal to all linguistic groups in the country.

This was weakened slightly

in recent years in Italian-speaking Ticino, where a nationalist Lega dei Ticinesi sprung up. But the Lega also lost ground in Sunday's election, apparently because of its unimpressive performance in the last parliament.

This outlook was challenged

in a report by the Institute for

Economic Studies (IEE), an independent body financed by private-sector companies.

The report, which dismissed

the objectives of the budget bill

as "illusory", warned that the

government's fall-back plan of

extending the current budget

provided no guarantee of

spending discipline.

It also said the government's

proposal of making adjust-

ments by decree-law - for

instance to raise pensions and

civil service pay in line with

inflation - could be blocked on constitutional grounds.

The minority government

NEWS: EUROPE

French regulator castigates state-owned group

'Health warning' issued on Pechiney 6-month accounts

By Andrew Jack in Paris

The French financial markets regulator yesterday criticised Pechiney, the state-owned aluminium and packaging group. It said the company, earmarked for swift privatisation, had published figures that breached national accounting rules and allowed a loss to be turned into a profit in its most recent results.

In an unusual move, the Commission des Opérations de Bourse (COB) issued a public "health warning" on the Pechiney accounts for the first six months of 1995 which were published last month.

The warning will be included in the prospectus soon to be sent out as part of the privatisation process for the group, which the French government

has promised will be next on its list of sell-offs.

The COB, which supervises the operation of the French markets, has the power to discuss with all quoted companies the application of accounting principles and to recommend changes, but it has no authority to force any modifications.

Instead, in a rare and high-profile decision, it circulated a warning in which it said it "regretted" that Pechiney had not complied with French accounting standards in reporting the sale of a series of subsidiaries.

If the group had done so, it noted, Pechiney would have shown modest losses rather than a profit of FFr658m (\$129.5m) in the six months to June 30 this year.

The dispute arose because

Pechiney decided not to show FFr700m in capital losses, incurred by selling two subsidiaries, as part of its programme of sell-offs in preparation for privatisation.

Instead, it offset them against an anticipated profit of FFr1bn on the sale of a third company, although this transaction had not been completed at the time of the accounts were finalised.

Pechiney played down the COB's reaction yesterday, saying that it was "a technical accounting debate" reflecting differences between French and US standards. It said it stood behind the approval given to its accounts by the auditors, and said it had chosen the option that gave the most true and fair picture of its financial position.

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EUROPEAN NEWS DIGEST

Genetic rules clear hurdle

After more than a year of debate, European Union ministers yesterday agreed rules for marketing and labelling genetically engineered food. The legislation now goes to the European Parliament, where it is expected to face tough scrutiny from deputies who advocate strict regulation of biotechnology products.

The ministers' text falls short of a demand from some governments that all genetically modified foods be labelled. EU officials said a tomato containing a strawberry protein, for example, would have to carry a label to alert consumers allergic to strawberries. But sugar from beets that had been genetically modified to resist disease would not have to be labelled, since the sugar would be no different from that produced by other beets.

Austria, Denmark, Germany and Sweden – which fought for tougher labelling – voted against the text.

The new marketing rules would also oblige manufacturers to obtain permission before placing new foods or ingredients on the market, with some exceptions for products that are substantially equivalent to existing foods. Approval could come from a national government, which would be required to give the European Commission and other EU states time to object. But, in some cases, a product would need EU approval under procedures involving the Commission and a committee of national experts.

Reuter, Brussels

Germany may curb jobless pay

Mr Norbert Blüm, Germany's employment minister, has said he plans to introduce an annual review of individuals' unemployment payments which could cut payments by up to 5 per cent a year.

The Federation of German Unions (DGB) says it has a leaked draft of the legislation which Mr Blüm is preparing, indicating that unemployment payments will be linked to the lowest pay categories rather than claimants' last wage. Opposition Social Democrat politicians and the unions yesterday vowed to oppose the plans saying they would impoverish millions of people. The DGB estimates that a third of people receiving unemployment benefit rely on other social security payments because they cannot make do with what they receive.

According to some estimates, unemployment benefits are likely to cost the government DM200m (\$13.6m) this year, DM2bn more than forecast.

Michael Lindemann, Bonn

'Progress' on E Slavonia status

Croatia yesterday claimed progress after talks with Serb representatives about the status of the disputed region of eastern Slavonia. Resolution of the issue would help pave the way for a wider settlement in former Yugoslavia. Recent meetings have ended in conflict, with both sides unable to agree on anything – not even the venue of future talks.

According to Mr Hrvoje Sarić, the envoy of President Franjo Tuđman of Croatia, the two sides have decided to meet tomorrow, but have not yet agreed on how long the interim period under international supervision should last. "The principle of reintegration has been accepted, even though some questions still remain," said Mr Sarić.

At the United Nations in New York on Sunday, Mr Tuđman warned that he would take action if talks dragged on. "Croatia sincerely hopes that such actions will no longer be required and that agreement will soon be reached on the peaceful reintegration of 4.6 per cent of still-occupied Croatian land," he said.

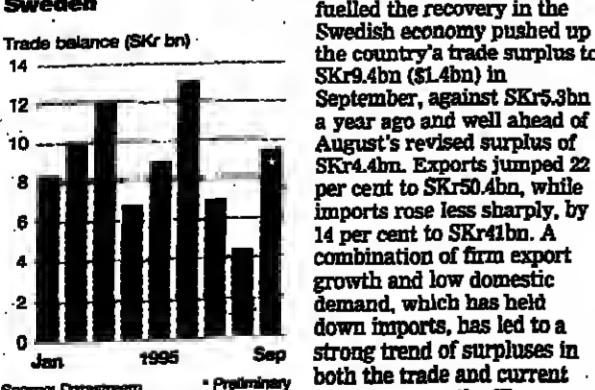
"At the same time, we are prepared to take other necessary steps as well, if speedy reintegration of eastern Slavonia, Baranja and Western Srijem is not incorporated into the final peace plan for the region." Washington recently made clear its opposition to any military move by Croatia against the last area inhabited by Serb rebels.

Laura Silber, Zagreb

ECONOMIC WATCH

Exports boom in Sweden

Sweden



The export boom that has fuelled the recovery in the Swedish economy pushed up the country's trade surplus to SKr12.5bn (\$1.4bn) in September, against SKr9.5bn a year ago and well ahead of August's revised surplus of SKr4.4bn. Exports jumped 22 per cent to SKr50.4bn, while imports rose less sharply, by 14 per cent to SKr41bn. A combination of firm export growth and low domestic demand, which has held down imports, has led to a strong trend of surpluses in both the trade and current account recently. The domestic economy remains sluggish, offsetting import demand stemming from an upward swing in investment. But a recent strengthening of the hitherto weak krona could have a negative impact on the export boom in the coming months.

Hugh Carnegy, Stockholm

The Dutch trade surplus widened to F12.103bn (\$1.35bn) in July from F1.298bn a year earlier, but narrowed from a revised surplus in June of F1.272bn.

Austria's consumer price index in September was up 2.1 per cent on the year, the same as August.

Spain's industrial production index rose 5 per cent in August from a year earlier, after growing 3.7 per cent in July.

Paris judge to rule on renting of Chirac's flat

By Andrew Jack in Paris

The French franc came under short-lived pressure yesterday after it emerged that a senior legal official had been asked to rule on whether President Jacques Chirac could be prosecuted over the Paris flat that he rented.

The franc dipped briefly to 3.5395 against the D-Mark following revelations in the French newspaper Libération that Mr Bruno Cotte, the Paris state prosecutor, had begun examining a dossier concerning Mr Chirac on Saturday.

Mr Pierre-François Divier, a lawyer working for Ms Evelyn Ferreira, an ecologist acting in her role as a taxpayer, confirmed yesterday that he had sent details of the case against Mr Chirac to Mr Cotte to rule on whether the president had "a case to answer."

The case centres on whether Mr Chirac illegally interfered at the time of the purchase in 1977 of the spacious apartment he rents on Paris's left bank by a company partly controlled by the city.

Canard Enchaîné, the satirical and investigative French weekly paper, reported earlier this year that Mr Chirac paid FFr11,000 (£1,420) a month for the flat, which was bought by SGIM for FFr2m. SGIM is 38.6 per cent owned by the Paris authorities, with the rest held by the Rothschild family.

The latest action comes shortly after Mr Alain Juppé, the prime minister, came under severe attack over alle-

gations that he had acted illegally in allocating and determining the rents in city-owned apartments in Paris rented by him and his son. The franc fell sharply on rumours that he might resign.

No action was taken in the case involving his son, but Mr Cotte ruled there was sufficient evidence to pursue Mr Juppé for "taking and maintaining an illegal interest" in awarding himself a city-owned flat in 1990 when he was the city's deputy mayor for finance and property.

Mr Cotte decided not to pursue charges on condition that Mr Juppé moved out of his apartment. The prime minister agreed to move with his family into the Matignon, the official residence.

Mr Chirac's position appears less precarious than that of Mr Juppé, partly because his flat was bought by a company in which the city of Paris only has a minority shareholding. One legal question is whether the president had any control over the company.

Mr Divier, the lawyer questioning the legality of Mr Chirac's involvement in the purchase of the apartment, has already begun separate legal proceedings in the administrative courts.

He said he had now made a separate request to Mr Cotte because he feared that the administrative tribunal might make a ruling that would not be made public and might prove contradictory.

The latest action comes shortly after Mr Alain Juppé, the prime minister, came under severe attack over alle-

Lira and bourse take a fall

Communists to help the right bring down Dini

By Robert Graham in Rome

Reconstructed Communism, formed from the hard line of the old Italian Communist party, yesterday decided to make common cause in parliament and vote for a no-confidence motion against Mr Lamberto Dini's government.

The move by RC deputies last night appeared to give the no-confidence motion enough for a majority in the 630-seat chamber of deputies to topple the eight-month-old government. Debate on the motion, introduced last Friday by the right-wing alliance headed by Mr Silvio Berlusconi, the former premier, will begin this afternoon with a vote due on Thursday.

The political uncertainties surrounding the likely fall of Mr Dini, the prime minister, and his government of non-parliamentarians, caused a sharp fall in the lira yesterday. The currency fell to L1.165 to the D-Mark against Friday's close of L1.138. In a week the lira has lost 3 per cent against the D-Mark.

On the Milan stock market prices dropped 2.6 per cent. Since the political crisis began last week with the removal of Mr Filippo Mansuso as justice minister, the bourse has fallen almost 6 per cent.

Until yesterday RC had been cautious about crossing the ideological divide to bring

down the government. It had sought to present its own no-confidence motion but yesterday accepted it could not muster the 63 signatures necessary.

Mr Fausto Bertinotti, the RC leader, said the most important thing was to end Mr Dini's government – even if his party's motives were diametrically opposed to those of Mr Berlusconi and his allies.

The right-wing alliance consists of four parties and five groupings of parties and individuals accounting for 222 deputies. If RC carries through with its commitment announced yesterday, its 24 deputies will make up the necessary 316 votes for a majority. The centre-left alliance backing the government and dominated by the Party of the Democratic Left can count on 309 votes.

Political analysts were yesterday cautious about the outcome, as it is still possible for politicians on both sides to break ranks. But, as newspapers were published again yesterday after a three-day shutdown caused by a journalists' pay strike, most commentators accepted the days of the Dini government were numbered.

Suggestions that Mr Dini would resign before the debate were discounted yesterday. His office made it clear he intended to fight the no-confidence motion and appeared to be encouraged in this stance by President Oscar Luigi Scalfaro.

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NEWS: WORLD TRADE

Alcatel in \$650m radio satellite deal

By Andrew Jack in Paris

Alcatel Alsthom, the French telecoms transport and engineering group, has been awarded a contract for about \$650m to construct three satellites which will be used to create a digital radio network for the third world.

In an announcement expected to be made very shortly, the group will confirm it is beginning work for WorldSpace, a privately owned US-based company which aims to be the first large-scale provider of digital radio services by satellite.

Mr Noah Samara, chairman of WorldSpace, said yesterday that his financial backers wanted to create a radio network "with vision and a sense of social responsibility".

A number of organisations - including the British Broadcasting Corporation - are currently experimenting with digital radio broadcasts, which produce a far higher quality sound, but Mr Samara said WorldSpace was likely to be the first company to begin operating using satellites-based system of this type.

He said that the system was designed to be a cost-effective replacement for many broadcasters in the developing world which have difficulties reaching even their own national population using shortwave and FM transmissions.

Alcatel will act as the principle contractor and will deliver the satellites operating the so-called "time-driven multiplex system" to WorldSpace once they have been launched and tested for several weeks in

orbit around the earth. The first one - covering Africa and the Middle East - is scheduled to start operating by mid-1998, with the second for the Caribbean and Latin America in place by the first quarter of 1999 and a third for Asia by the third quarter of the same year.

Mr Samara said the technology of his company's system was far cheaper than that being discussed by other groups, because it needed to be affordable to reach the target market of audiences in the developing world.

He said that the company had already carried out successful trials run by the technology with Motorola, the US electronics group, and was developing radios that would sell for less than \$100 to receive the satellite signals.

Discussions with a number of radio companies were taking place on the building of the receivers.

The cost of transmitting signals by broadcasters to one of the three bands emitted from each satellite to cover an area of 14m sq km would be less than \$50 per hour, according to Mr Samara.

He said that most of WorldSpace's income would come from charges to broadcasters, with further revenues likely to be generated from joint ventures with broadcasters.

WorldSpace is likely to seek a US share quotation over the coming months. Mr Samara said that he expected the company to be profitable before its satellites were launched as a result of commitments made by broadcasters.

Deal puts Bangkok's elevated transport system back on track

An impasse threatening to derail one of east Asia's most ambitious transport schemes has been overcome following agreement between the Thai cabinet and Hopewell Holdings, the Hong Kong-based developer.

The \$32m development of a 60km elevated transport system through the centre of Bangkok has been held up for several years by bureaucratic wrangling and conflicts between Hopewell and the Thai government.

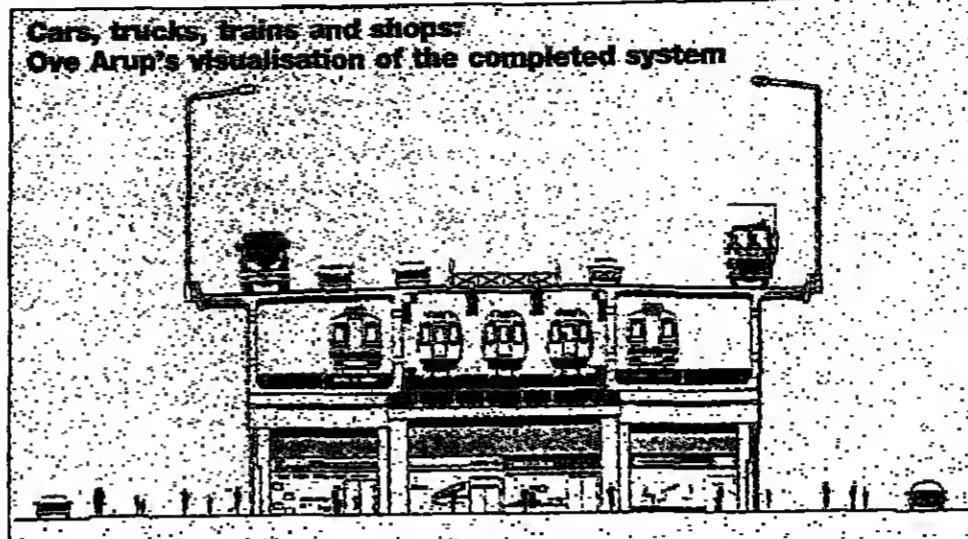
The project had seemed likely to be cancelled earlier this month when Mr Thaksin Shinawatra, deputy prime minister, said he doubted whether Hopewell's chairman, Mr Gordon Wu, could make good his promise to have the first phase of the development working by June 1998.

The Thai cabinet has now breathed new life into the project by authorising the state railway and the ministry of transport to alter contract terms so that differences over property rights, land acquisition timetables and construction arrangements can be worked out.

Agreement on property rights is essential as Hopewell intends to help pay for the transport project by taking advantage of substantial development opportunities along the route of the elevated road and rail system, particularly around railway stations.

The plans prepared by Ove Arup, the UK design and engineering consultants, are for a dual highway, a mainline railway and a high-capacity commuter railway running along different levels of the elevated system. Shops and offices would be developed at ground level along the route.

Some 53km of the elevated railway's route follows the line of the existing state railway. The original completion date for the first phase, which will connect Don Muang international airport in the north to Huamak in the east, had



The first phase of 39km with 31 commuter train stations, is

needed to be ready for the Asian Games, planned to be held in Thailand in 1998.

The Thai authorities and Hopewell say they are now close to resolving all significant issues delaying construction.

"The Thai government has to understand that this is a two-way street,"

Mr Colin Weir, Hopewell's general manager in Thailand, said: "They [the cabinet] have approved many things that need to be approved. There are only two to four significant issues that remain. The government has shown the political will necessary to make this project happen."

The original completion date for the first phase, which will connect Don Muang international airport in the north to Huamak in the east, had

been December 6 this year. The Thai government says it will ask for progress reports every three months to ensure the new completion date of 1998 is observed.

The cabinet noted approvingly that Hopewell already had spent nearly \$200m on initial piling works and to import

machinery needed to manufacture precast concrete. It warned that Hopewell could still lose the project if it fell behind schedule.

The Hong Kong developer, however, does not feel it has been given a three-month ultimatum. "The government has to understand that this is a two-way street. We can't progress unless the government keeps up its side of the deal as well. We have had a constant

battle with the Thai authorities, as do all private infrastructure developers," Mr Weir said.

Contract squabbles have previously forced a state-sponsored takeover of a private expressway while another private tollroad is up for sale after the government's refusal to honour the concession agreement saddled the operators with huge losses.

International banks hit by these failures have warned they will never again lend to a road project in Thailand. Nevertheless, Hopewell insists the financing of its project should not present a problem.

"We have the money to meet our commitment," Mr Weir said. "Mass transit generally isn't profitable but we can make money by developing the land bank that comes with the concession."

He was undeterred by the recent slump in the Thai property market.

Ted Bardacke and Andrew Taylor

WORLD TRADE NEWS DIGEST

EU and US near export-loss deal

The European Union and the US appear set to resolve their long-running dispute over US demands that it be compensated for loss of exports caused by EU enlargement this year. Sir Leon Brittan, European trade commissioner, said it was "entirely realistic" to expect an agreement when he visited Washington at the end of this month. A US official said it was an "odds-on bet" that an agreement would be reached, although his government still wanted further EU concessions.

Mr Mickey Kantor, US trade representative, said at the weekend that an EU offer last week on agricultural trade, the most sensitive issue in the dispute, was "a step in the right direction". The terms of the offer were not disclosed, but are believed to go some way to meeting US concerns about cereals exports.

Mr Kantor yesterday took Spain to task for its restrictive rules on the showing of US films in Spanish cinemas. He described the Spanish law on dubbing non-European films as unfair and unreasonable. "Frankly, this is a protectionist measure that has to be addressed," he said.

David White, Madrid

World music market buoyant

The global music market is set for a record year in 1995 after showing strong growth in the first half with retail sales rising by 14 per cent to \$15.8bn. A number of established markets, including the UK and Japan, achieved particularly high growth during the first half according to the IFPI, the body representing the international music industry. Sales also increased in less mature markets such as Brazil and India.

Sales have been buoyed by consumers continuing to replace their vinyl and cassette collections with compact discs. Hong Kong, Indonesia and Brazil showed strong growth, chiefly due to the reduction in sales of illegal "pirate" recordings. The South African market also expanded. Sony and PolyGram recently opened offices there and now plan to market local artists internationally.

Alice Rauschorn

Japan sluggish on diesel cars

Japanese carmakers are falling increasingly far behind their European counterparts in exploiting growth in Europe's market for diesel cars, which are on course to capture more than 30 per cent of all new car sales in the region, according to industry analysts Automotive Industry Data. Europe's diesel car sales are likely to jump by 1.6m units a year to 4.3m annually within the next decade. But Japanese carmakers have been left "languishing in the starting blocks" because of a lack of interest in diesel among Japanese consumers and in North America, the Japanese industry's most important overseas market.

Oil acknowledges that there is "one dark cloud" hanging over its forecasts - potential changes in taxation policies towards diesel fuel, should governments start to lose significant revenue because of diesel vehicles' lower consumption.

John Griffiths

Diesel Car Prospects to 2004. Automotive Industry Data, PO Box 4211 Tamworth, Staffs B79 9BY, England. £1.45

Preferential trade deals backed

The United Nations Conference on Trade and Development (Unctad) has called for a strengthening of preferential trade arrangements for developing countries to help them expand and diversify their exports. In a report prepared for an Unctad meeting in Geneva this week, the secretariat says the 24-year-old Generalised System of Preferences (GSP) remains an effective trade policy instrument to aid poor nations. However, the GSP needs revitalising in the wake of the Uruguay Round of global trade agreements and other developments.

Frances Williams, Geneva

Elf quits China project

Elf Aquitaine, the French oil group, yesterday confirmed it was cancelling its involvement in the planned Shanghai Pudong oil refinery, a project that had been estimated to cost more than \$2.5bn.

Its comments came after Mr Ye Qing, deputy head of China's planning commission who is responsible for energy policy, told journalists earlier this month that Elf had decided to withdraw after experiencing "financial difficulties". Elf rejected suggestions that it had any financial problems in the region, and said it planned to invest more than FF 2bn (\$400m) in China before the end of the century, enabling it to triple sales in the country.

Andrew Jack, Paris

Brittan attempts to map out WTO's agenda

By Guy de Jonquieres in Stockholm

Sir Leon Brittan, Europe's trade commissioner, yesterday called on World Trade Organisation members to make investment rules, competition policy, the environment and labour standards the top priorities for future international trade negotiations.

He also hoped that tariff cuts agreed in the Uruguay Round world trade deal could be put into effect ahead of schedule, and that developing countries would accelerate implementation of new WTO rules on the protection of intellectual property rights.

Sir Leon's speech, at an international conference organised by the Swedish government, is the first attempt by a

leading WTO member to map out the next phase of the global trade policy agenda, ahead of the organisation's ministerial conference late next year.

He emphasised that the WTO needed to ensure its activities met practical economic demands and commanded wide public support. "The WTO work programme cannot be written in a vacuum," he said.

It must be a response to the needs of businesses for trade and investment liberalisation worldwide. If it is to be a success, it must meet those needs in a way which produces truly global results and makes the WTO popular at home.

His remarks reflect growing concern, shared by several leading trading powers, that the task of maintaining momentum in the multilateral trade system could become harder unless the WTO gains wider public recognition and builds a stronger political constituency in support of further liberalisation.

Sir Leon's most controversial proposal is to launch WTO discussions on trade and labour standards - an idea strongly opposed by most developing countries, which fear it could become a pretext for protectionist measures by industrialised economies.

The trade commissioner acknowledged that the question risked provoking a north-south split. However, he said: "I do not believe the WTO will be able to remain silent on this issue if it wants to work effectively on others."

If free traders were not seen to tackle concerns that the man in the street regarded as legitimate, "we shall lay ourselves open to protectionist demagogic, for example to the effect that other countries deliberately exploit child labour in order to increase European unemployment."

Sir Leon called for early expansion of WTO membership, to include countries such as Taiwan and Russia. However, expansion must not undermine WTO rules and should lead to fresh economic liberalisation by new members.

He said China's WTO membership negotiations had lost most of their momentum, but must not be allowed to break down. "China cannot come in at any price. But we must all take a fresh look at our priorities, and ensure that we do not ask for more than is reasonable."

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Daiwa tried cover-up, says ex-manager

By Gerard Baker in Tokyo

A former senior Daiwa Bank executive has admitted the bank's management attempted to cover up bond-trading losses accumulated by a dealer in its New York branch.

Mr Hiroyuki Yamaji, who resigned as a managing director of the bank earlier this month to atone for the losses, said he and other managers had postponed revealing the problems. He claimed they planned to write them off in the half-yearly book-closing in September, two months after they had first discovered them.

The admission is another blow to the bank's reputation and increases the likelihood that US regulators will punish it severely for its delay in disclosing sensitive information.

It will also focus renewed attention on the role of Japanese regulators who were told about the losses in early August but did not quickly inform their counterparts. Mr Yamaji hinted the Finance Ministry knew about and failed to express disapproval of a cover-up.

The former manager told a newspaper at the weekend that he had gone from the bank's headquarters in Osaka to New York immediately after the discovery of the losses at the end of July and met Mr Toshihiko Iguchi, the trader responsible.

He said management concluded that they should not immediately tell the authorities, as required under US law. "The bank thought it would be severely damaged if we had disclosed the loss immediately after it was discovered," Mr Yamaji said. He told Mr Iguchi to continue concealing the losses. "I told him to say nothing about it."

Mr Yamaji revealed the bank told the Finance Ministry of its plan to dispose of the losses. He said that, with Daiwa's president, Mr Akira Fujita, he had met Mr Yoshimasa Nishimura, head of the ministry's banking bureau on August 8. "We told him we would have no problems in closing the mid-term books in September. Mr Nishimura simply said: 'The timing is bad.'

The Finance Ministry was at the time dealing with the collapse of one financial institution and the impending failure

of two more, and Mr Yamaji got the impression that bureaucrats were preoccupied. Mr Nishimura has denied he knew about the bank's plan to cover up the losses.

Meanwhile, Standard and Poor's, the US credit rating agency, said it was downgrading Daiwa's long-term rating from A-minus to BBB and its short-term rating from A2 to A3. The agency said the bank's credit quality had already been under pressure from a high level of bad loans and a weak operating environment.

Though some of the costs relating to the losses would be offset by increased profitability from interest-rate cuts in Japan, the incident represented a "major setback" to the bank, it said.

In international markets yesterday, Japanese banks faced further increases in borrowing costs. The "Japan premium" rose to 0.56 percentage points above normal interbank rates for some banks and as high as 0.68 percentage points for the weaker ones, as concern about the Japanese financial system grew among international bankers.

Screen of stability, Page 17

ASIA-PACIFIC NEWS DIGEST

HK regulators to co-operate

The Hong Kong Monetary Authority, the colony's central bank, and the Securities and Futures Commission, the corporate regulator, said yesterday they would strengthen co-operation in areas of common regulatory interest. Where powers overlap in respect of a financial institution or financial group, the two will appoint a co-ordinator to establish regular exchange of prudential information on an institution's financial position, the fitness of its management, and other supervisory matters.

■ Hong Kong's annual inflation rate was 8.9 per cent in September, up from 8.3 per cent in August. The colony's consumer price index rose 1 per cent in September, compared with the previous month. A government economist attributed the rise to food costs, due to bad weather. He said there was no indication it marked a rise in prices for the rest of the year.

Simon Holberton, Hong Kong

The six Mekong River countries - Burma, Cambodia, China's Yunnan Province, Laos, Thailand and Vietnam - have agreed at a conference in Bangkok to an ambitious master plan for developing the region. The plan, negotiated with the Asian Development Bank, consists of joint development strategies in six areas: energy, transport, telecommunications, tourism, human resources and environment. Conference participants said the Greater Mekong Sub-region, with population of 225m, could become the next area of booming economic growth in Asia. At a meeting with international bankers and infrastructure developers to announce the plan, the private sector was invited to provide much of the \$20bn in capital needed to implement the proposals.

Ted Bardacke, Bangkok

Vietnam merges ministries

Vietnam yesterday officially confirmed a series of sweeping changes to the structure of government, involving the formation of three new super-ministries. The foreign affairs ministry said a total of eight government bodies would be merged to form the three new departments.

A new ministry of agriculture and rural development will replace the previous agriculture, water and forestry ministries. The heavy industry, light industry, and energy ministries will be merged to form a ministry of industry. And a new ministry for planning and investment will encompass the former state planning committee and the state committee for co-operation and investment. The changes were described by local press as the most far-reaching reform enacted under the current National Assembly term. The official press said the main thrusts of the move were aimed at eliminating overlapping posts in the cabinet and merging government bodies which share similar functions.

Hanoi, Reuter

Tourists drawn to Asian eclipse

Tourists flocked to some of Asia's most magnificent sites yesterday to watch the rare shadow of a total solar eclipse. In Cambodia, hundreds arrived at the 12th-century Angkor Wat temple, the world's largest religious structure for today's phenomenon. Many more gathered in India, Pakistan, Bangladesh, Burma, Vietnam, Thailand and Malaysia for the brief spell of daytime darkness as the moon blocked the sun. The moon's shadow, which varies in size as it races along a band through South and South-east Asia, was expected to be about 100km wide at most.

Angkor Wat, Reuter

Sound of silence leaves farmers in despair

China's once-mighty Yellow river has become a trickle, threatening livelihoods, writes Tony Walker

Mi Shen remembers the days when he could hear the rumbling of the Yellow river behind the dykes 2km from his peasant dwelling on the north China plain.

"One after another dams have been built so you can't hear the sound of the water any more," he says.

Damming, drought and overuse have slowed the river, and even stopped it altogether on occasions, bringing the threat of hardship to millions in one of China's most arid regions.

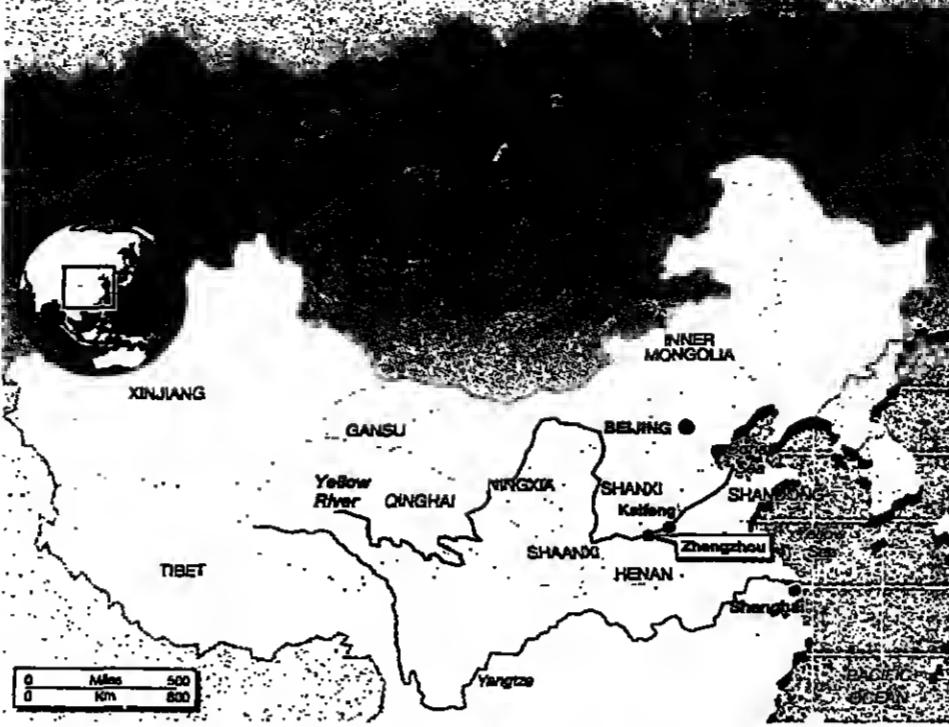
From March to June this year the river became a trickle for 400km between Kaifeng, the ancient capital, and the Bohai Sea, affecting agriculture and industry in Henan and Shandong - two of China's main grain-growing regions.

The Yellow river may have provided the cradle of Chinese civilisation, but it has also proved a curse, breaching its banks repeatedly over the centuries, devastating surrounding areas and bringing death to tens of thousands.

In the folklore of those who dwell along its 5,464km length there is a saying, *huanghe ning, dan xiaoping* - when the Yellow river calms down, there is peace under heaven. The problem is that after a drought in its catchment areas since 1987 the river has become too quiet.

Mr Mi motions towards a stagnant canal that borders his rice fields, ripening under an autumn sun near the city of Zhengzhou, and notes that as recently as the late 1980s it would be filled with more than enough water from the Yellow

Map showing the Yellow River in Shandong province



river to irrigate his crops. But now he is obliged to use well-water and to dig wells deeper because overuse is lowering the water table.

Grain yields are down because of shortages of water, and because well-water lacks the nutrients of Yellow river water, he says.

In Zhengzhou, Mr Zhuang Jingjin, deputy director of the Yellow River Conservancy Commission, which represents the eight provinces through

which the river flows, is confident the drought will break and the flow of water will return to normal (it is now down 30-50 per cent). But he says that even in the best years the river can no longer support rapidly increasing demands placed on it by agriculture and industry and commerce can hardly be overstated.

As China's population has grown, so has demand for water for irrigation. In 1950, in the year after the Communists took over, the area of irrigated agricultural land along the Yellow river totalled 80m hectares;

extends for more than 795,000 sq km and some 180m people depend on its waters, about a sixth of China's population. The river's importance to Chinese agriculture, industry and commerce can hardly be overstated.

The river's catchment area

now is 706m ha.

In the early years after the revolution consumption of Yellow River water was about 7bn cu m a year; now it is more than 30bn cu m with a peak of 33bn cu m in 1989. While the flow in the Yellow river is about 58bn cu m in a "normal" year, only about two-thirds is available for use. The rest washes huge quantities of silt towards the sea.

It is estimated that 1.6bn tonnes of silt from the eroding plateaus of Inner Mongolia and Shaanxi provinces are washed down the river each year with 700m-800m tonnes finding their way into the Bohai. The volume of silt would be enough to encircle the globe 27 times if turned into, say, one-cubic-metre blocks.

Silting is estimated to be raising the river bed 10cm a year. In some places, such as near Kaifeng, the river bed looks 1.7m above the surrounding countryside.

And the Yellow river delta is growing by an astonishing 24 sq km a year, or some 500m of new land stretching into the Yangtze, the country's largest river.

Disastrous land-use policies in the Yellow river's catchment areas, including indiscriminate tree-felling, especially during the Great Leap Forward of 1958, have compounded erosion problems in Shaanxi and Inner Mongolia. Erosion gullies are growing by as much as 13m to 15m a year.

While the threat of drought, flood, pollution and the effects of erosion have been enough, wrangling with provincial governments and local authorities brings its own headaches,

Mr Zhuang of the Yellow River Conservancy Commission.

Lack of co-ordination among various users of the scarce river water and an absence of consolidated laws and regulations make the task of bodies such as the conservancy commission especially difficult. Excessive use upstream deprives users downstream.

Mr Zhuang gives the example of water use in Inner Mongolia and Ningxia autonomous region where 6 cu m of water is expended on growing 1kg of grain whereas in the lower reaches 1 cu m is used to produce the same amount.

The low price for water causes widespread wastage. "The cost of 1,000 cu m of water is equivalent to a bottle of mineral water in the market, with the result people don't even think about conserving Yellow river water," says Mr Zhuang.

China has various schemes to increase the flow of the Yellow river, including an ambitious programme to divert waters from the catchment of the Yangtze, the country's largest river. But this project in the remote western region of Qinghai, involving the construction of a massive dam and the building of tunnels through mountains to connect the watersheds of the two rivers, would be an enormous, costly engineering feat.

At the earliest, according to Chinese reports, construction would begin in 2020 and perhaps take the best part of a decade. Farmers such as Mr Mi have some time to wait for a return of the sounds of rushing waters.

Military bars Burmese opposition leader from party post

By Ted Bardacke in Bangkok

Burmese opposition leader Aung San Suu Kyi has been denied permission by the country's military government to resume the leadership of the political party which she helped to found.

Ms Suu Kyi was reinstated as general-secretary of the National League for Democracy earlier this month after being released from six years of house arrest in July.

The move was seen by many political observers as a challenge by the

NLD to the government, a warning that if it wanted to negotiate with the opposition it would have to deal directly with Ms Suu Kyi.

However, Burma's election commission ruled that the reappointment of Ms Suu Kyi was illegal, citing a 1991 rule outlawing changes in party leadership without government consent. Former political prisoners Mr Tin Oo and Mr Kyi Matung were also denied permission to take up posts as vice-chairmen of the NLD.

The party can still function legally with its old leadership, under the chairmanship of Mr Aung Shwe, a former military leader.

The NLD swept elections held in 1990 but the military refused to hand over power. The opposition party was forced to expel the three leaders in 1991 to conform with a regulation preventing political parties from giving membership to people charged with crimes.

Observers in Rangoon said the re-election of Ms Suu Kyi - who was detained, but never tried, on charges

of endangering national security - was a further sign that the possibility of direct talks between the government and the NLD was increasingly unlikely.

Ms Suu Kyi has called for talks but the military government has taken a harder line, preferring to keep political activity confined to a government-dominated national convention, charged with drawing up a new constitution for the country.

The convention resumes on November 28 and both sides are understood to be struggling with how to respond to the approaching stalemate.

New ammunition for Burma's critics is expected later this month when the United Nations releases its annual survey of human rights in Burma. In spite of the release of Ms Suu Kyi and some other high-profile political prisoners, the report is expected to highlight the fact that thousands of political prisoners remain in jail and to criticise the government for practising forced labour and involuntary resettlement.

S Korean leader orders probe into slush fund claim

By John Burton in Seoul

South Korean President Kim Young-sam yesterday ordered a "thorough" investigation into allegations that his predecessor, Mr Roh Tae-woo, controls a Won36.4bn (\$320m) political slush fund.

Mr Kim was responding to a confession by a close aide of Mr Roh that Won36.4bn uncovered in a hidden account at Shinhan Bank was part of a secret political fund allegedly created by the former president.

Although Mr Kim is seeking to mollify public anger about the affair, an aggressive probe carries political risks. An investigation could alienate ruling party conservatives MPs associated with the former Roh government and provoke them to defect to a new rightwing group, the United Liberal Democrats.

Roh supporters help form the largest faction within the ruling Democratic Liberal party and they have engaged in an internal power struggle with the moderate minority faction associated with President Kim ever since he succeeded Mr Roh in February 1993.

The government is in danger of losing its 15-seat majority in the 293-member National Assembly as some conservative DLP legislators switch to the ULD, including one yesterday. Aides to President Kim, however, hope that possible damaging information resulting from the probe will harm the reputation of defecting MPs and hamper any rightwing campaign in next April's parliamentary elections.

It remains uncertain to what extent prosecutors will be allowed to conduct their investigation since it could lead to awkward questions about the possible secret financing of other politicians. Opposition parties have suggested that some of the money allegedly raised by Mr Roh was used to finance Mr Kim's 1992 presidential campaign.

Meanwhile, government prosecutors are under pressure to answer several questions about the secret fund allegedly held by Mr Roh, including the size of the hidden accounts, who contributed the money, and how it was to be used.

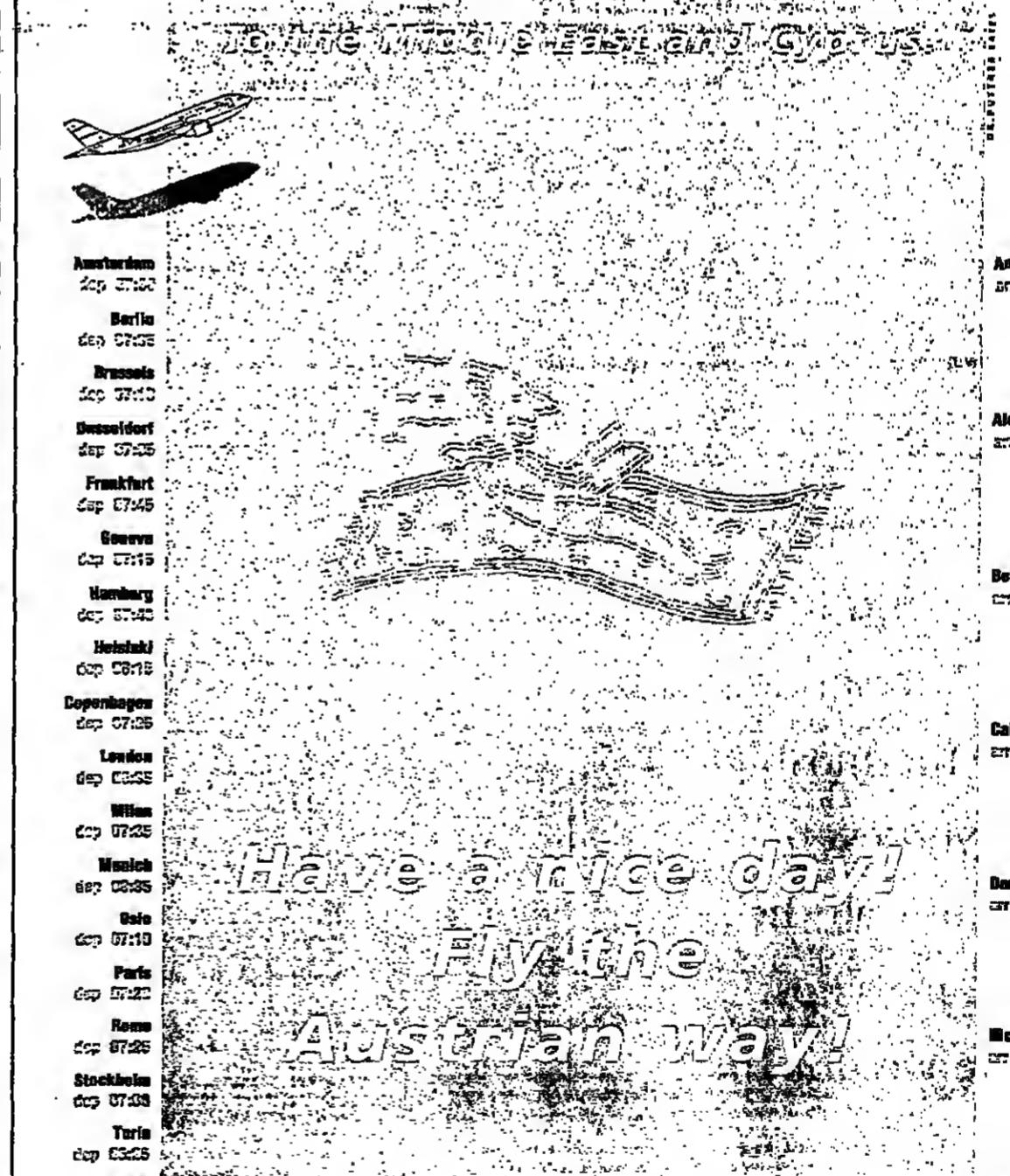
Many analysts believe the fund may have been financed by forced donations from business groups in return for favours, including contracts for infrastructure and defence projects. Mr Chung Ju-yung, founder of Hyundai, alleged in 1992 he had to make an annual contribution of Won10bn to the Roh administration.

The Seoul stock market general index fell 2.3 per cent yesterday because of concerns that big industrial groups and banks may be implicated in the scandal and be subject to tax investigations. Conglomerates close to the Roh administration, such as the Sunkyong and Dongbang groups, suffered steep falls in share prices, as did Shinhan Bank.

The funds may have been collected to finance the election campaign of politicians belonging to the ruling party's majority Democratic Justice faction, which consists of supporters of the former military-backed governments under Mr Roh and Mr Chung Doo-hwan between 1980 and early 1983.

But gaining access to the funds, which are believed to be hidden under false or borrowed name bank accounts, has become difficult after President Kim in August 1993 ordered the use of real names in all financial transactions, with transfers being verified through identification checks.

This poses a problem for those who have tried to hide money from the tax authorities, with the owners of an estimated Won10,500bn in financial institutions still unidentified since the real-name system went into effect.



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NEWS: INTERNATIONAL

Forex surge masks maturing market

For all the thousands of words written about events in the foreign exchange market every day, there is only one definitive estimate of the market's size: the Bank for International Settlements' triennial survey.

For this reason it is a safe assumption there will be innumerable references in the coming years to the figure of \$1,200bn (£785bn), the estimate of daily turnover revealed in the latest survey, published yesterday and based on data collected in April this year.

The main importance of this figure, almost freakishly large when viewed in isolation, is that it confirms the view of some leading market participants that the world's foreign exchange business is now a maturing industry.

At first blush, this is not the case. Estimated global turnover is shown to have grown by 50 per cent from \$820bn when the previous survey was conducted, in April 1992. The rate of growth also increased, with the market growing by an estimated 39 per cent between 1989 and 1992.

When, however, allowance is made for the sharp depreciation of the dollar against other

leading currencies over this period, the survey finds that the market grew "in the region of 30 per cent", much the same as in the previous three-year period.

This trend is more consistent with general market sentiment than the unadjusted figures.

When these were released last month, with turnover in London shown to have grown 60 per cent, and activity in New York up by 48 per cent, the surprise of most market participants verged on disbelief.

Mr Yves Perreard, head of foreign exchange management at BBS in London, singles out a number of factors which explain this surge in growth. First, the record profits experienced in 1993, when volatility in the European exchange rate mechanism contributed to high levels of activity, attracted a number of new entrants into the industry. This trend is still evident today.

Second, cross-border investment flows, including speculative activity by hedge funds, have grown considerably. Corporates have also been more active again.

The downside of these trends, however, is that "mar-

gins are drying up in a big way," said Mr Perreard. The response of many banks, he believes, has been to increase their intra-day trading activities. With exchange rate volatility less than in recent years, Mr Perreard believes there has been a shift towards trading in larger amounts, but on a short-term basis.

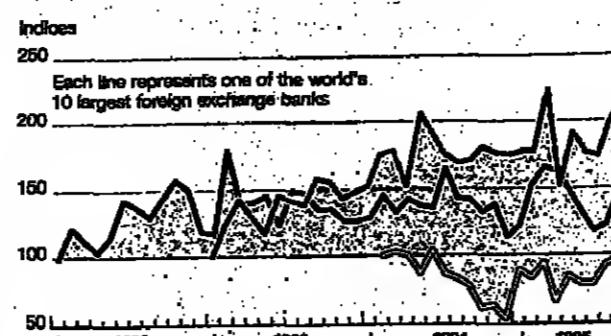
These trends are borne out by profits which have not kept pace with turnover growth. Foreign exchange profits fell across the board at leading banks in 1994, compared with 1993. While 1993 was a better year than 1992, profits in most cases are still a long way short of 1992/3 levels.

Activity among institutional investors has been more subdued as difficult market conditions have made asset managers more reluctant to take aggressive trading stances.

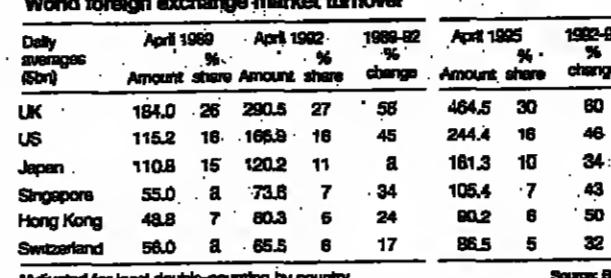
Position-takers who put their own capital at risk, such as hedge funds and the proprietary trading desks at banks, have also been more cautious in their trading strategy.

Both these factors have contributed to a decline in market liquidity, a factor much commented on by market participants, despite the overall

Foreign exchange turnover (London)



Each line represents one of the world's 10 largest foreign exchange banks



Adjusted for local double-counting by country

Source: BIS

Indices

250

200

150

100

50

J 1992 J 1993 J 1994 J 1995

Source: FT

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Dole wins Wilson's backing

By Jurek Martin in Washington

Governor Pete Wilson of California, his own presidential ambitions frustrated, yesterday endorsed Senator Bob Dole as the Republican party's nominee next year.

He did so with a circumspect side-swipe at retired General Colin Powell, one of the two most talked-about undeclared candidates along with Congressman Newt Gingrich, the Speaker of the House.

The majority leader, Mr Wilson said, was "the best general" to lead the party into next year's campaign. Geo Powell, who has promised a decision on his own plans next month, lacked the "political experience" to beat President Bill Clinton.

Mr Dole returned the compliment by naming the governor overall chairman of his campaign in California, the state on which the outcome of next year's presidential election may well hang.

But Mr Wilson was quick yesterday to quash speculation that his early endorsement was designed to increase his chances of emerging as a running mate for Mr Dole. He would not accept the post if it were offered, he said.

The value of the Wilson endorsement has probably diminished. The governor's home state popularity fell drastically during the course of his own abortive run for the nomination, largely because Californians objected strenuously to his breaking an explicit promise not to seek national office if re-elected last year.

But it still constitutes the first good news for Mr Dole in some time. Although none of the other nine declared Republican candidates has broken out of the pack to offer a serious challenge, the majority leader finds himself trailing both Mr Clinton and Gen Powell in most national polls.

Mr Dole has found himself drawn into sharp exchanges with conservative candidates over tax reduction, with Senator Phil Gramm of Texas and recently with Mr Steve Forbes, the magazine publisher and latest entry into the race.

Equally marked has been an odd war of words with Mrs Arianna Stassinopoulos Huffington, who failed to get her congressman husband elected to the Senate from California last year, now runs a conservative salon in Washington, and has clearly hitched her star to Mr Gingrich's wagon.

She has called Mr Dole "a tired old man" on television and wrote last week that his front-running campaign was about to fall down a trap door, allowing "the right nominee" to emerge.

That is widely interpreted as a sign of the Speaker's current thinking, though officially he says he will make no move until Gen Powell does.

Falklands fishing deal 'in months'

By Quentin Peel in New York

Britain and Argentina hope to agree within months on a new fishing deal for the disputed seas surrounding the Falkland Islands. President Carlos Menem of Argentina said yesterday.

The agreement, by early next year, would build on the oil exploration deal recently signed between the two former combatants in the 1982 Falklands conflict.

Mr Menem and Mr John Major, the British prime minister, were due to discuss progress on the fishing agreement, as well as plans to boost trade links between the two countries, at talks in New York yesterday - the first meeting between the British and Argentine heads of government since hostilities ended.

The bilateral summit follows the signing of the oil deal last month. This allows the Falkland Islands' government to auction licences in its territorial waters. Argentina had previously threatened to blacklist any oil company which bid for a licence.

Both sides to fish in the disputed territorial waters, would be in place by the end of the year, or early in 1996.

At the same time, he insisted that the Argentine claim to sovereignty over the islands, which his government still maintains, has been "placed under an umbrella".

"We will be showing the world that only through peaceful negotiation and talks can one reach an acceptable settlement," he said.

St Lucien calls on Québécois to vote Yes

Mention the name Lucien Bouchard to a Canadian these days and the reaction is bound to be unusually forceful.

To Quebec secessionists, Mr Bouchard has become nothing less than a saviour. He has electrified audiences up and down the St Lawrence River in the past few weeks, instilling new hope that the separatist camp can win the referendum next Monday on independence for Quebec, and go on to create a dynamic new country.

Among his political foes however, Mr Bouchard is despised. He is reviled not only for using his position as leader of the official opposition in the federal House of Commons to break up the country, but also for turning on some of his closest friends and erstwhile political allies.

Opinions about Mr Bouchard have become even more polarised since he took the helm three weeks ago of what had been a floundering separatist campaign. Mr Bouchard has overshadowed and outshone Mr Jacques Parizeau, Quebec's premier, who is the nominal head of the Yes forces.

Opinion polls published in recent days show that the Yes side, but written off before Mr Bouchard took over, is now overtaking the pro-Canada camp.

Support for independence looks more and more likely, report Bernard Simon and Robert Gibbens

Mr Bouchard has swayed many Québécois by playing down the risks of independence. Instead, he has stressed that a Yes vote would rekindle Québécois' pride and give them the bargaining power they have so far lacked to forge a new economic and political partnership with the rest of Canada.

"A Yes vote will be something magic," he promised at one rally. He shrugged off Québécois' worries that they might lose their Canadian passports by asking what was wrong with a Quebec passport.

Angus Reid, a polling group, said last week that Mr Bouchard's credibility, and especially the appeal of his message about a "new deal with Canada", has clearly struck a chord with voters".

The federalist side remains confident it will score a narrow victory on Monday. Most undecided voters are expected to opt for the less risky course of a No vote. Others may change their minds at the last minute as they ponder the costs of a break-up. But even the staunchest federalists acknowledge the margin of victory will be smaller than they expected a few weeks ago.

Mr Bouchard, 57, has his roots in the isolated Lac St Jean region of eastern Quebec, where separatist sentiment and labour militancy were fanned early this century by the dominance of English-speaking businesses such as Alcan Aluminum and Price, a forest products group. These

companies' managers were typically English-speaking, mostly from far-off Montreal or the UK. Local francophones were left with the blue-collar jobs.

Most large businesses in Quebec are now run by French-Canadians, but the nationalist movement still strikes a chord by reminding Québécois how they have overcome their subservience.

Mr Bouchard, a truck driver's son and a lawyer by training, entered federal politics in the mid-1980s as one of several Quebec nationalists who voted to Ottawa by former Prime Minister Brian Mulroney. He served as Canada's ambassador to Paris and held a number of cabinet posts.

But Mr Bouchard stormed out of the Mulroney government in 1990 in protest against a report on constitutional reform written by one of his colleagues, Mr Jean Charest. According to Mr Charest, who is now leader of the Progressive Conservative party, Mr Bouchard has refused to speak to him since.

Mr Bouchard went on to form the Bloc Québécois to give the separatist cause a voice in Ottawa. The BQ's concentrated power base in Quebec enabled it to gain enough seats in the 1993 election to form the official opposition.

Friends and acquaintances have difficulty characterising Mr Bouchard. His moods vary from outgoing bonhomie to humourless intensity. Despite his nationalist ardour, his wife is American.

According to Mr Jean Lapierre, a co-founder of the BQ and now a Montreal radio talk-show host, Mr Bouchard has "a great sense of indignation and a good measure of competence. He's honest but not always predictable".

So strong is Mr Bouchard's aura of invincibility that his supporters have nicknamed him St Lucien. His statue as a secular saint was heightened last winter when doctors amputated his left leg to stanch the spread of a deadly flesh-eating virus.

Having given the separatist campaign encouragement, Mr Bouchard is unlikely to be swayed if the No side ends up winning a narrow victory next Monday. Political pundits expect he would take over, sooner or later, from Mr Parizeau as Quebec's premier.

Ironically, Mr Bouchard could face a far tougher challenge if the separatists are victorious. He has been named to lead Quebec's negotiations for a new political and economic deal with Canada. But he could not expect much co-operation from the federal government in Ottawa, the other nine provinces, financial markets or Quebec's own business community.

Taking on the separatist leader's magic metaphor, Mr Jean Charest, Canada's prime minister, warned in Quebec City last week: "If [Mr Bouchard] thinks he'll sit down after a Yes vote and just negotiate a partnership with Canada, he's living in a world of fantasy." English Canada's attitude towards Quebec in general and Mr Bouchard in particular would undoubtedly harden still further.

See World Stock Markets

New Castro greeted by a new Harlem

By Quentin Peel in Harlem, New York

Thirty-five years ago, President Fidel Castro of Cuba was thrown out of his hotel on New York's Park Avenue, and forced to move with his revolutionary entourage to the Theresa hotel in Harlem.

He might have been expelled by America's polite society, but he was ecstatically received by the poor blocks of the ghetto.

On Sunday night, he was back in the heart of the city's black community, still revelling in his role as an outcast. Gone was the smart, double-breasted suit and sober striped tie he had worn at the United Nations' General Assembly that morning. Back were the familiar olive-green fatigues and forage cap, after a quick change at the Cuban UN mission.

They did not all agree. "They put him here as a punishment, and he captured the hearts of the people," said Mr Edgar Nkosi, a diminutive figure sporting dreadlocks and dark glasses.

A subdued crowd in the street greeted Mr Castro's arrival - barely a couple of hundred strong, and they included two groups of protesters, one for and one against his rule in Cuba.

"It is symbolic," said Mr Omar Kayou, a big bald man in a green T-shirt, who said he was a Sunni Moslem. "Most of the people here came out of courtesy. When he came in the 1960s, it was something good. Harlem was all about power to the people and the revolution. Fidel Castro represented that. But we have to solve our own problems today. He doesn't have the



Castro addresses supporters in a Harlem church

answers. We should be reflecting on where we are going, on the message of the Million Man March.

They did not all agree. "They put him here as a punishment, and he captured the hearts of the people," said Mr Edgar Nkosi, a diminutive figure sporting dreadlocks and dark glasses.

Inside the church, Mr Castro denounced the US trade embargo against his country, calling it a crime against humanity, a "noiseless atom bomb" destroying the lives of women and children.

He sang the praises of Cuba's education system, and all the teachers and doctors it turns out.

He mocked President Bill Clinton: at that moment hosting a fancy reception for all the other heads of state and government at the New York public library, and he ridiculed Mayor Rudolph Giuliani of New York, who had thrown a splendid dinner party on Saturday night without him.

"The mayor said I was a demon, and the demon would not be invited to dinner," he said to roars of applause. "I'm going hungry on my first day in New York." The audience loved it - they don't like Mayor Giuliani in Harlem.

He confessed, however, that he had been received out by a businessman instead.

Indeed, no fewer than 230 businessmen have applied to meet him on his four-day stay, according to the New York Times.

The truth is that Harlem has changed, and so has Fidel. The gospel, whether Baptist or Moslem, is closer to the fight against crime and drugs in Harlem than a communist revolution. And the Cuban president would dearly love to entice more capitalist investment to his country. In New York at least, the fatigues are only for special occasions.



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PHILIPS

LUXEMBOURG

Mighty micro-state flexes its muscles

As European integration moves ahead, the state intends to retain its influence, says Lionel Barber

Luxembourg is the mighty micro-state at the heart of Europe. A founder member of the European Union, it has exploited deftly the opportunities offered by open borders, free trade, and steady progress toward deeper political and economic integration.

The Grand Duchy's stability and prosperity is a source of admiration and occasional envy among its neighbours; so too, is the country's knack of turning one good idea into reality every 30 years, from modern steel-making, to private banking and the latest successful efforts to develop a cross-border life assurance industry.

Luxembourg's drive to diversify is moving ahead fast with the government-encouraged programme to build up a multimedia sector, partly to relieve some of the country's dependence on the financial sector which contributes LFr50bn (£1.065bn) to the country's economy, roughly 15 per cent of gross domestic product.

Yet there are clouds drifting in from the Ardennes. The profitable banking industry is starting to complain about the high taxes and social costs needed to underpin Luxembourg's welfare state.

Unemployment figures have started to creep up. At 2.7 per cent, the jobless rate remains the lowest in the EU but it is still close to a post-second world war record. Traces of long-term unemployment are emerging for the first time in memory.

On the political front, the Grand Duchy is heading into next year's inter-governmental conference (IGC) with a degree of apprehension.

As the EU prepares to review

its power-sharing and constitutional rules ahead of the planned integration of central and eastern Europe around the turn of the century, there will be growing pressure to reduce the influence of smaller members, particularly mini-states such as Luxembourg.

Most observers believe that the Grand Duchy is fortunate to have a young, energetic and intelligent man in charge during this tricky period of transition. Jean-Claude Juncker took

retained, he launched reforms of health insurance and in 1993 completed an overhaul of taxation, reducing the burden on middle-income and small to medium-sized companies, while keeping a tight grip on spending.

His latest target is civil service reform, a tough but necessary measure which has already brought him into conflict with the powerful public sector unions.

One of seven children of a steel-worker and trade union militant, Mr Juncker is a Christian Democrat with a strong sense of religion and a commitment to defending Europe's social model. Inside the EU club, he has a wealth of contacts and commands respect. Chancellor Helmut Kohl, a fellow Christian Democrat, viewing Mr Juncker as something of a protege, refers to him affectionately as "Junior".

If Mr Juncker has a fault, it is that he is too much of a one-man show. But the young prime minister is determined to keep Luxembourg in the first division of EU member states, particularly in the run-up to the planned monetary union in 1999.

He lists his objectives as stable growth, balanced public finances, high rates of employment and price stability. The fact that Luxembourg is only one of three countries (the others are Germany and Ireland) which are judged by their peers to have met the Maastricht treaty's convergence criteria for European monetary union suggests that he and his country are on track.

Lucien Thiel, general manager of the Luxembourg Bankers Association, agrees that the figures look impressive. But he points to conflicting pressures facing the government as it seeks to prune public spending and reduce the tax burden in response to pressure from the corporate sector.

On the one hand, Mr Juncker is battling to rein in the benefits of the civil service while not alienating one of the most important political constituencies. On the other, if he bows to the financial sector and lowers corporate taxes, he is bound to face calls to follow tradition and reduce the tax burden on private households by a corresponding amount.

"Juncker is showing a lot of

ingenuity in tackling the problems today rather than storing up trouble for later," says a civil servant. "But if he gets it wrong, he could get into trouble."

A similar battle on pay and conditions is unfolding in the financial sector itself. Mr Thiel claims that union demands



Juncker: determined to keep Luxembourg in the first division

over as prime minister last year aged 39, succeeding Jacques Santer who moved to Brussels as the new president of the European Commission to succeed Jacques Delors.

"Santer sent this country to sleep for 10 years, he was the man who could build a consensus," says an official who knows both prime ministers well. Another colleague agrees.

"Santer concentrated on the issues that were most important, and never bothered much about the rest. He took the helicopter view."

By contrast, Mr Juncker comes across as a man in a hurry. As finance minister, a portfolio which he has

been given a general pay increase, an automatic rise for seniority and a reduction in the working week from 40 to 35 hours, would produce a 40 per cent increase in costs over the next two years. "It's absolutely crazy," he says. "If there's to be an increase, it should only be for performance."

The unions dispute Mr Thiel's figures, but the outcome of the banking sector's pay round - which follows the expiry of an earlier three-year deal - will offer clues as to how serious Luxembourg is about keeping down its costs.

Long-time residents such as Fleming Fund Management have no doubt that the present

system of indexation has no place in a highly-developed service economy such as that of Luxembourg. "To have one's hands tied at salary review time is madness," says Tony Doggart, Fleming Fund Management's managing director.

The question is whether fear of unemployment will affect the negotiating climate. For although Luxembourg's jobless rate is low by EU standards, Mr Juncker's worst nightmare is that the country might start importing unemployment from its borders.

The Luxembourg economy draws heavily on skilled labour commuting in and out of the country, but as Mr Thiel points

KEY FACTS

Official title	The Grand Duchy of Luxembourg
Head of state	Grand Duke Jean of Luxembourg
Capital	Luxembourg-Ville
Area	2,588 sq km

Population: 365,200 (1993)

Economic indicators	
1990	1991
GDP at market prices (LFr bn)	352.8
Real GDP/growth (%)	3.2
Consumer price inflation (%)	3.7
Population '000 (mid-year)	380
Exports fob-bo	6.3
Imports cif bn	7.8
Exchange rate (av) Bfr/Lfr	33.4

1992 1993 1994 1995 1996

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8.0 8.2 7.5 8.0

34.2 32.2 34.6 33.5

1997

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8.9

67.6

100.0

% of total

Agriculture, viticulture and fishing

Manufacturing and mining

Energy and water

Construction

Services

GDP at factor prices

100.0

% of total

Private consumption

Government consumption

Fixed investment

Stockbuilding

Exports of goods and services

Imports of goods and services

GDP at market prices

100.0

(a) Actual (b) EU forecasts (c) Excluding steel

Source: EU Country Report 3rd quarter 1995, World of Information

Dehaene, the Belgian premier.

The Benelux trio recognise the risks of a big power carve-up between France, Germany and the UK in 1996. Their calculation is that it is better to move in concert than go solo in Europe. Luxembourg's own strengths should not be underestimated.

From the 1970 Werner plan on monetary union, to the 1985 single European Act, as well as large chunks of the Maastricht treaty, a handful of resourceful political minds stamped Luxembourg's blend of consensus on the process of European integration. There is no reason to suspect that it will be any different the next time around.

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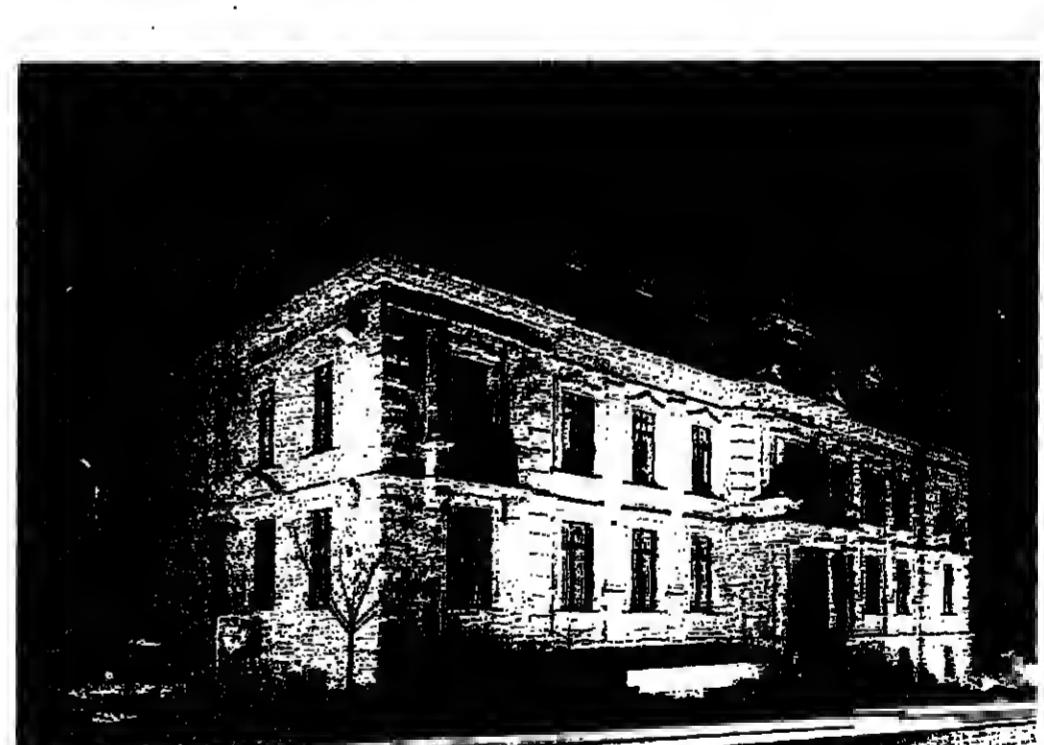
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2 LUXEMBOURG

■ Economy: by Simon Gray

Rankings still flattering

In spite of a rise in the number of unemployed, the overall picture remains rosy

Robert Goebels, Luxembourg's Minister of Economic Affairs, is not a man to encourage complacency. Speaking at the opening on October 7 of the Grand Duchy's autumn trade fair, a traditional occasion for finger-wagging economic homilies, he cautioned his audience against being carried away by Luxembourg's lofty position in national wealth league tables.

The most recent World Bank rankings placed Luxembourg second in gross national product per head, behind Switzerland. With purchasing power taken into account, Luxembourg is first - ahead of the US. Even in a new calculation taking into account natural resources, the Grand Duchy is classed third after Canada and Australia.

Mr Goebels advised against taking these "flattering" rankings too seriously. For one thing, he noted, Luxembourg ranked only twelfth among the richest regions of Europe, trailing behind several areas of Germany and much of north America.

The GNP per head figures were in any case skewed, he argued, by the substantial reliance of the Luxembourg economy on non-residents. "Our GDP is the product not only of the labour of Luxembourgers and numerous non-Luxembourgers residents, but also cross-border commuters, who represent more than a quarter of the workforce," Mr Goebels said. "The latter are not counted when it comes to dividing GDP by the resident population, which takes a little of the sheen off Luxembourg's statistical richness."

It is a matter of concern to many Luxembourgers that foreigners, resident or otherwise, make up more than half the national workforce, and around two-thirds of that in the private sector. But given the pace at which the economy has been creating jobs over the past decade, there seems no alternative.

By the end of this year, Goebels' ministry reckons, domestic employment will have grown by 5,600 to 213,600, of whom almost 60,000 will be cross-border commuters. Since 1991, total employment has grown by 18,600 but residents have contributed just 1,400 new members to the workforce.

This helps explain why throughout this sustained period of job creation - at least 2 per cent every year since the mid-1980s - unemployment has crept up to some 4,600. At 2.7 per cent of the national labour force, the jobless rate is the lowest in the EU but still close to a post-war record.

Moreover, the phenomenon of long-term unemployment is starting to be felt in Luxembourg for the first time in memory. The Employment Administration describes a third of those on its rolls as "difficult to place".

Overall, however, the economic picture is rosy. The closest Luxembourg came to recession earlier in the decade was in 1983, when domestic consumption fell by nearly 1 per cent; even then GDP grew by at least 1.7 per cent.

Economic growth is considerably more robust now. The rate for last year has been revised by the Economic Affairs Ministry to as high as 4.1 per cent, and the economy is forecast to grow between 3.0 and 3.3 per cent on a par with the EU average, this year and next. (The vagueness of the forecast is because Luxembourg publishes two sets of accounts for the national economy, believing the European standardised SEC system fails to give adequate weight to the impact of Luxembourg's banking sector on its domestic economy.)

Inflation, which surged in 1993 to 3.6 per cent, has since fallen back to a forecast 2.4 per cent this year, assisted by the anti-inflation efforts of two of the Grand Duchy's largest trading partners, France and Germany.

Last year Luxembourg's industrial sector enjoyed growth of about 3.5 per cent, even with its largest component, the steel industry, still suffering from weak demand. Since then the outlook has changed for Arbed, today the

world's sixth-largest steel manufacturer, with a return to profit for the multinational group in the first half of this year.

Other indicators point to steady if not spectacular growth. Consumer spending remains depressed by a slump in the car market, which accounts for 11 per cent of the commercial sector, and the construction industry remains subdued after a surge in growth in the late 1980s. The picture looks healthy for the financial sector, where the banks set new profit records last year (albeit mostly thanks to the drawing down of provisions) while the newer cross-border life assurance market continued its rapid growth.

A counterweight to financial services lies in the information and media sector, where Luxembourg is home to two successful and profitable groups - pan-European broadcaster CLT and Astra satellite operator SES. The government is hoping for a third winner in Europe Online, a supplier of mass-market computer services which started operation toward the end of this year.

If there is a cloud on the economic horizon, it is continuing fears that with its high salaries, generous social benefits and strict employee protection rules, Luxembourg could start to price itself out of markets.

These are strong in the financial sector, where personnel costs grew by some 15 per cent last year; in the past decade staff costs have risen from an average 16.2 per cent of banks' gross results to 24.5 per cent.

This has reached the point where insiders fear business is already being driven away. Explaining the recent decision to close the Bank of Boston's Luxembourg subsidiary, Jean Lefranc, the managing director, said: "We were not losing money but operating costs, and especially personnel costs, were becoming heavier and heavier."

Those who have called for a more flexible employment structure are taking heart, though from the decision by Prime Minister Jean-Claude Juncker, wearing his employment minister's hat, to allow Goodyear to introduce Sunday

working at its tyre production centre - even though 68 per cent of employees voted in a referendum prescribed by law against the plan.

Goodyear won the day by dangling the carrot of a \$60m investment programme and 100 new jobs at its Colmar-Berg site (the tyre manufacturer is Luxembourg's second-largest private sector employer) if seven-day production was authorised.

But it was something of a turnaround for Mr Juncker, who is known as a partisan of employee rights and who in 1988 was the author of legislation which intensified restrictions on Sunday working.

In the past decade Good year's workforce in the Grand Duchy has fallen from 4,500 to 3,400.

Against this background, he explained his decision by saying: "Without Sunday working, the rationalisation process would have continued and we would have lost up to 400 jobs... Those who will have to work are not happy at my decision, I'm sure. Their quality of life will suffer, but I had to weigh the factors for and against."

The premier insists his decision will not set a precedent that other companies can follow. But the conclusion being drawn is that where employee rights run across other economic needs, especially creating or preserving jobs, it is the latter which will take precedence. Not before time, business men say.

■ Investment funds: by Lionel Barber

Supremacy could be challenged

Other centres look ready to compete with Europe's financial supermarket

Luxembourg is Europe's financial supermarket-in-waiting. Multilingual and multi-skilled, the Grand Duchy is rapidly becoming the distribution centre for leading international fund managers, as well as a proven location for private banking, interbank loans, and Euro-market activities.

In the past decade, Luxembourg has become the fourth largest centre for investment funds in the world; in Europe it ranks second only to France. As the market becomes more sophisticated, fund managers are launching a dazzling array of products to pull in cross-border customers.

But there are clouds on the horizon. Low-tax Duhlin has served notice that it intends to compete for the funds business. Germany is still unhappy about the steeppe of D-Mark investors to Luxembourg, a withholding tax haven. The government in Belgium is twitchy about the Grand Duchy targeting Belgian savers through its burgeoning life assurance business.

Closer to home, the investment fund sector, which contributes about 10 per cent of the national budget through capital duties and tax receipts from banks and employees, is griping about Luxembourg's high tax, high salary base.

Rico Barandun, managing director of Credit Suisse, Luxembourg, is a leading light in the Luxembourg banking association's campaign for a reduction of the 0.65 capital duty on investment funds, having secured a reduction to 0.08 per cent for money market and fund of funds.

His own group solved part of the tax problem by creating a new vehicle, Credis, to administer the group's SF340m funds and book the fees. Credit Suisse Luxembourg, takes the custodian's fee only, "but we will save tens of millions of Swiss francs this year", he says.

Despite his tax complaints, Mr Barandun cites his association's creed: "The banker in Luxembourg has the linguistic ability of a Luxembourger, the internationalism of an American, the hospitality of a Scandinavian, the diplomacy of an Englishman, the efficiency of a Japanese, the culture of a Frenchman, the precision of a German, the reliability of a Swiss, and the charm of an Italian."

This multilingual, multicultural approach is evident among the 220 odd banks and investment houses which are shoe-horned into Luxembourg city.

Businesses such as Fidelity, which has \$3.7bn under management, boast as many as 12 different languages in-house, each vital for servicing clients around the world.

Richard von Gerlach, Fidelity's tall young marketing director, says Germany is the big prize. The German market is "segmenting" as consumers look beyond the traditional

clearing and savings banks for reliable, high-yield investment opportunities, in particular to fund their pension contributions.

With almost 20 per cent of German salaries going toward pensions, Mr von Gerlach suggests that a "retirement crisis" is building in Germany and the rest of Europe. Touting the credentials of investment funds, he declares: "People cannot rely on government guarantees alone."

Tony Doggart, managing director of Fleming Fund Management (Luxembourg) agrees. He points to the likely rapid rise in the proportion of retired people in France, Germany and Italy in the next 20 to 35 years. "We have only barely scratched the surface of the markets we are involved in."

Flemings, which set up office in Luxembourg in 1988, likes to lay stress on its global expertise, partly because of the close links it has with Jardine Fleming in the Far East, but also through its interest in less researched, if higher risk, emerging markets in central and eastern Europe.

"You have a highly educated, 99 per cent literate population, with very cheap wage rates," he says. "A lot of these countries are re-emerging markets."

But Mr Doggart concedes that the retail market remains soggy after last year's difficulties. Flemings is tending to offer more lower risk products.

German investors, for example, are being courted with offers of 120 per cent of their initial investment in-house, after five years, or 60 per cent of the rise in the Dax share index.

Banque Indo Luxembourg has put a lot of effort into harnessing computer technology to produce more efficient, more flexible means of managing and administering several investment funds at

minimal advice and administration fees: "no load" (no initial charge) versus "low load", which has slightly higher management fees.

Roland Simon, managing director of Deutsche Bank investment management, says price-conscious younger people are moving more into the long-term investment market. Equities are competing with more traditional life insurance products as potential for capital growth.

The bank's building - a futuristic steel structure with a towering statue of a dinosaure in the atrium - is geared to evoke the new age.

Despite the difficulties of dealing with the switchback inflow and outflow of D-Mark in the Grand Duchy in the past five years (the bank moved from DM615m in 1990 to DM425m in 1993, to DM285m in 1995), Mr Simon says his group can offer products which are not permitted or are restricted in Germany, particularly on "guaranteed, money-back" deals and the use of over-the-counter derivatives...

With new independent financial advisers moving into the market, the big banks are likely to be forced to engage in more partnerships in order to contain the costs of distribution such as Indo's hike up with Générale de Banque of Belgium.

Whatever the untapped potential of the investment market, competition seems sure to intensify - a message which is as relevant for the banks as for the Grand Duchy itself.

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A healthy picture: banks set new profit records last year

JOELLE

Arbed: by Caroline Southey

Acquisitions bolster profits

Interests on foreign soil are now contributing to the giant steel company's strength

A strategic acquisition by Arbed, the jewel in the Grand Duchy's industrial crown, has projected the giant steel company into the top ranks of Europe's biggest players and breathes new life into its core activities.

Arbed still towers over Luxembourg's industrial landscape contributing nearly one third of the country's industrial output and providing employment for almost 10,000 people.

However, the group's financial strength now emanates as much from acquired steel interests on foreign soil as it does from activities inside the Grand Duchy.

"The company has pursued a clever political strategy and has managed to reposition itself into being both a global and a major European player," said a London-based analyst.

The strategic move that has brought about the biggest

transformation in the group's fortunes was the acquisition last year, through its subsidiary Sidmar, of the German steel company Kloeckner Stahl, renamed Stahlwerke Bremen.

The investment stretches Arbed's activities further across Europe - in Belgium, France, Luxembourg and finally Germany - and places the group among Europe's four largest steel companies.

In 1994 Arbed's total crude steel production stood at 11.9m tonnes, just ahead of Thyssen's 10.7m and behind Usinor's 11.5m, Riva's 16.1m and British Steel's 12.9m.

"It was a great timing success picking up Bremen just before the upturn in the market," the analyst said.

A glance at the group's mid-term results, which include consolidated Bremen figures for the first time, show the scale of the German company's impact.

The group's net profit stood at LFr1.6bn after a loss of LFr1.56bn in the first half of 1994. Cash flow reached LFr11.3bn compared with

LFr9.8bn last year. The production of flat products, which accounted for more than half of Arbed's operating profits, rose by 88 per cent from 1.6m tonnes to 3.5m. Of this the Bremen plant contributed 1.6m tonnes and the Sidmar plant 1.9m.

The increase in consolidated net sales from LFr10.6bn to

Arbed is replacing the traditional steelmaking process for long products with electric arc furnaces

LFr13.5bn was mainly due to the 73 per cent in flat products sales from LFr32bn to LFr55.6bn. Stainless steel also showed a strong performance increasing by 74 per cent from LFr10.4bn to LFr15.2bn.

for the insurance sector, says it is "premature" to describe life business as the third pillar of Luxembourg's financial sector, after banking and investment funds, but he admits there are signs it could "become a very significant industry in the national economy".

If it does, Luxembourg will owe a big debt to Mr Rod for his work in creating the conditions for the Grand Duchy to become a player in the European market.

Since arriving at the Commission in the early 1980s, Mr Rod has worked to expand the scope of the sector beyond a saturated domestic market (at the end of 1993 there were some 35 non-life companies) offering little opportunity for growth.

Indeed, the main development over the past two or three years has been the creation of bancassurance

operations by the leading retail banks, squeezing existing players even harder.

The first initiative to develop new markets came in 1984 when, at the request of Swedish industrial groups headed by Electrolux, Mr Rod drew up legislation permitting the establishment of reinsurance captives.

Today about 220 reinsurance companies are operating, most of them captives, holding assets totalling more than LFr200bn. There were about 30 new arrivals in 1994 and a similar increase is expected this year.

Although most of the first reinsurance companies in Luxembourg were Scandinavian, today the largest number - more than 60 - are of French origin, followed by those from Belgium. With German groups also discovering the Grand Duchy, growth in the sector is

set to continue, according to Charles Benshaw, managing director of captive management company Sinner Europe.

Swedish-owned Sinner is one

of the world's top captive management groups, with operations also in Dublin, Bermuda, Burlington, Vermont and Singapore, and is co-marketing leader in Luxembourg with some 25 per cent. "I think there is still room for growth in Luxembourg," Mr Benshaw says.

"Especially because of its position in the EU. Big groups are showing greater interest in captives because they allow you to bring premium and losses in one place and balance out the risks of a whole group of companies, and because captives also allow them to insure some kinds of risk for which there is no or little capacity in the market."

While the reinsurance market continues to record steady



Glyn Gorw

Steelworker: Arbed still towers over Luxembourg's industrial landscape

Schonckert, Arbed's press officer

plete switch-over as soon as possible," said Mr Schonckert.

However, the start-up costs

will remain high as running

the old a new systems in tandem

will be expensive. "The

objective is to achieve a com-

sector and increased competition from eastern European companies.

Arbed's mid-term results show that it made no profits from this sector. "Arbed has had to face up to the dangers

of increased competition and a weaker market," said the analyst.

The company is also facing up to other weak points in its portfolio. The group's biggest challenge is to "sort out its finances" according to a Belgian-based steel specialist. "Its biggest challenge is debt reduction."

The group's net financial debt stands at LFr87.6bn compared with LFr79.5bn last year. More than LFr12bn of the increase of LFr16.7bn was a result of the consolidation of Stahlwerke Bremen.

The other major factor behind the rise in debt has been an increase in the group's trading activities, with net debt in the trading sector standing at LFr12bn.

Arbed has outlined a strategy that is necessary to reduce the debt levels, setting as a priority the need to reduce the gearing ratio. It plans to reduce working capital needs, concentrate on core businesses by divesting in non-core activities and is considering opportunities for capital increases.

The group is optimistic about the outlook for its core activities. Flat products will be boosted by economies of scale at Sidmar and Stahlwerke Bremen while long products will benefit from the switch to electric arc furnaces.

guarantee coupled with the opportunity to benefit from market gains.

If Mr Stone has a complaint, it is that most Luxembourg life companies remain focused principally on selling back into their home market. Although a mixture of marketing channels is common, about 60 per cent use the marketing facilities of affiliated companies.

Mr Rod acknowledges this, but believes the pattern is starting to change. "Newly-formed companies tend to start off by relying on existing marketing networks," he says. "Developing new networks in other countries is much more difficult and costly. But all of them intend to broaden their geographical scope. It depends on how rapidly they can build up a sales force."

His confidence is shared by Mr Ball, who says new companies are in the pipeline, "and the companies already here are taking an interest in new markets. I think Luxembourg is going to see an enormous amount of business. Victor Rod's got himself a hell of an explosive market".

Insurances: by Simon Gray

EU rules bring big business

Reinsurance cannot match the excitement of the cross-border life business

A year after the entry into force of the European Union directives establishing a more or less complete single market in insurance, Luxembourg's ambitions to become the centre for pan-European life business look well on track.

At the end of September, 35 companies were doing cross-border life business from Luxembourg, including domestic insurers who have climbed on the freedom of services bandwagon. Premium income from non-residents amounted to LFr29.3bn last year, almost exactly double the 1993 total.

Victor Rod, director of the Commission aux Assurances, Luxembourg's regulatory body

for the insurance sector, says it is "premature" to describe life business as the third pillar of Luxembourg's financial sector, after banking and investment funds, but he admits there are signs it could "become a very significant industry in the national economy".

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While the reinsurance market continues to record steady

growth, it cannot match the excitement of the cross-border life business. The latter received a boost at the beginning of this year as leading Belgian financial groups started to switch their customers' savings from state bonds into policies with Luxembourg life companies often set up for the purpose.

This means the premium income figures for 1995 will look quite different from last year's table, which was headed by PanEuroLife, part of France's UAP group, with LFr9.7bn, and the British/Swiss-owned Lombard International, with LFr5.6bn; these two companies collected about half the sector's premiums from non-residents in 1994.

For the first half of 1995, however, the list is headed by three companies set up at the turn of the year. Argentlife (LFr18.4bn), Investlife (LFr10bn) and Vitis Life (LFr8.5bn) have between them taken 27 per cent more premium income in six months than the entire sector throughout 1994.

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While the reinsurance market continues to record steady

Compagnie Luxembourgeoise de Télediffusion: by Emma Tucker

Government backing proves vital

Close links with the state have been crucial to success for the country's media company

It has been an eventful year for Europe's oldest commercial broadcaster, Compagnie Luxembourgeoise de Télediffusion (CLT), the Luxembourg media company known to thousands of television watchers by its RTL channels, has been pre-occupied with events in Germany where Bertelsmann, the world's third largest media group, has been battling to take majority control of the RTL network.

Late last month, the Westdeutsche Allgemeine Zeitung (WAZ) newspaper group - which plans to merge its RTL holdings with Bertelsmann's by 1998 - purchased an additional 1 per cent stake in the RTL network.

The takeover raised WAZ's

stake in RTL to 11 per cent. With Bertelsmann controlling 39.1 per cent of RTL, the joint venture with WAZ will give CLT which owns 49.9 per

cent of RTL, did not take the move kindly. It opposed WAZ's build up of shares in court and was granted a temporary injunction pending a full hearing. CLT argued that the planned Bertelsmann-WAZ merger would violate media laws prohibiting majority ownership of television networks.

The ferocity of CLT's reaction is hardly surprising. It took the company only five years to become the leading commercial TV broadcaster in Germany where its three stations command 21 per cent of the national audience.

The company enjoys market leadership elsewhere in Europe. It is first in Belgium and the Netherlands and ranks as number four in France. Its private radio stations meanwhile lead the market in France, the UK and Belgium.

The company's success in Europe's increasingly competitive media market is largely thanks to its extraordinary historical advantage, linked closely to Luxembourg's state policy.

As early as 1981 the Luxembourg government decided to encourage the development of the media industry and

allowed a private company - Compagnie Luxembourgeoise de Radiodiffusion (now CLT) - to broadcast from its territory, rather than creating a public sector broadcaster for its tiny population.

As a result the media has developed into an important sector of the Luxembourg economy, with companies other than CLT benefiting from the country's liberal regime.

This approach, which compared favourably with the highly regulated media sectors common in the rest of Europe, was perhaps the biggest attraction for investors.

According to private operators, government ministers are available to answer questions and resolve problems in person, reducing bureaucracy and speeding up decision-making.

It is important to have the backing of governments, especially when you consider that in many countries the media is a political issue," Karin Schmitz, general manager of CLT says.

Another advantage for Lux-

embourg is that in spite of its size, it enjoys sovereign status. This means that along with other European countries it

has been granted an allocation of satellite frequencies.

In 1983 the government granted a franchise to private investors to use the satellite frequencies allocated to Luxembourg. This led to the establishment of the Astra satellite project, one of the country's

greatest successes.

SES, the franchise holder, created Europe's first private television satellite system. Today, according to government figures, 85m European households can receive a selection of 50 television channels and an even greater number of radio programmes either with a satellite dish or through

cable networks.

Luxembourg as a location has helped such development, argue companies such as SES and CLT. They point out that it is easier to appeal to a "European" audience from Luxembourg, which falls between several cultures.

Meanwhile, the Luxembourg government is doing its best to encourage the media industry to diversify, focusing on production companies. Since 1988 it has offered tax incentives to film makers aimed principally at producers of TV dramas.

The strategy started with mixed success. While more than expected was spent in the country by mainly small operators, few producers simply made their films and then left, contributing nothing to the industry's infrastructure.

However, a change in the law a few years ago putting a greater emphasis on attracting indoor studio filming has, says the government, seen the establishment of more than 20 production companies, several animation studios, and at least four production and post-production studios.

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4 LUXEMBOURG

■ **Tourism:** by Victoria Greenwood

Looking beyond the banks

Stunning vistas, medieval towns and feudal castles are packed into this tiny country

Luxembourg, it is often said, is the place to stop off for cheap petrol and cigarettes, do some banking, perhaps dine in the city, but then pass swiftly on to the next destination.

But those tempted to drive through the country without so much as blinking should take care. The Grand Duchy contains some historic towns and stunning countryside, with more marked trails and paths - some 5,000km - than any other country in Europe, all packed into a country barely 80km wide.

Luxembourg's well-developed infrastructure is supported by a government committed to the expansion of tourism, and makes the Grand Duchy a popular leisure spot for the Belgians, Dutch and neighbouring Germans.

One of its most enticing areas is a region rich in history known as the "ancient kingdom of the giants", the Mullerthal or valley of the millers. It is also known more simply as "Le Petit Suisse".

The tourist centre of the region is Echternach, situated on the banks of the river Sûre, a town dominated by a Benedictine Abbey.

Inside a fine Roman Basilica, rebuilt after severe bombing in December 1944, is an ornate marble sarcophagus containing the remains of the Northumbrian-born Saint Willibrord, one of the earliest known advocates of a united Europe.

Today, the saint's life is celebrated at the annual Spring procession - a hopping procession - held on Whit Tuesday and an event which attracts thousands of pilgrims and spectators.

The town's annual music festival also draws large numbers of visitors as well as internationally renowned performers such as Maria Kliegel, the German cellist, and Alexandre Lagoya, the Spanish classical guitarist.

Nearby is a recently excavated Roman Villa while numerous water sports are



More than a just business centre the Grand Duchy contains some magnificent countryside

available on a large artificial lake on the outskirts of the town.

Echternach retains a medieval atmosphere with its narrow streets and Gothic town hall, while its Sunday shopping attracts many German, Belgian and Dutch tourists.

The town is also the starting

Echternach retains a medieval atmosphere, with its narrow streets and Gothic town hall

point from which to hike or bike through an area of deep forests, crystal clear rippling streams and unique rock formations.

Two publications - *Rambler Routes* and *Cycling Routes* - that have been produced by the ministry of tour-

ism in French, English and German offer detailed routes across the area, with information on the distance and difficulty of the routes as well as short descriptions of the sights.

One of the best known local cycling routes is from Junglinster (just north of the city of Luxembourg) to Echternach (27km). The route passes through the old railway and tunnel, and on to a restored station at Bech, now a holiday home for young people.

One of the most striking examples of restoration in the area is the model village of Christnach, a quiet farming village of 340 inhabitants. Georges Cateaux, director of sites and monuments, has been a driving force behind efforts to return villages to their original forms.

In Christnach, a new cobbled walkway winds through an area of deep forests, crystal clear rippling streams and unique rock formations. Larochette, at the western most point of the region, is dominated by two castles which rest high above the old market town looking down on the valley of the White Ernz.

The town has a large Portuguese population, originally drawn to the region by a large textile factory which is now a cultural centre.

A well-marked trail takes the visitor from Larochette to Beaufort, where one of castles rises dramatically up from the out-of-forest.

This ancient castle lies in ruins, with parts of the fortress restored to incorporate a chilling torture chamber containing assorted instruments of horror.

The other castle, built during the 19th century, maintains an imposing guard over its forbear.

At Beaufort, numerous trails lead to the Mullerthal valley and to the Mullerthal itself, the centre of the Petit Suisse. Here paths intersect to reveal the splendor of the region's rock formations. Bizarre forms tower above deep natural pools and forests.

At the Schiessentumpel waterfall - one of the country's most celebrated sights - a rustic wooden bridge affords a spectacular view and leads to an ascent to the fortified castle of Hertingen, where the view across the valley is magnific-

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LUXEMBOURG Business guide

■ Language

Luxembourgish, French, German.

■ Currency

Value of Luxembourg Franc equals that of Belgian Franc, and is not quoted separately. Exchange and currency regulations applicable in Belgium apply to Luxembourg.

■ Visa requirements

Visas not required for nationals of the US, Japan, most western European countries and many others.

■ Surface access

Rail connections with Brussels, Frankfurt, Amsterdam, Basel and Paris. Good road links with Brussels, Trier, Paris, Frankfurt and Saarbrücken.

■ Air access

Regular flights by all major airlines. National airline: Luxair. International airport: Findel (FLD), 5km east of the capital.

■ Hotels

A one to five-star rating system partially in operation. Bills include service charge. Tipping optional.

■ Working hours

Government and business: (Mon-Fri) 0800-1800, lunch 1200-1400. Banking: (Mon-Fri) 0900-1830. Shops: typically 0900-2000, closed Mon morning.

■ Public Holidays

If a holiday falls on a Sunday, the Monday following is a holiday as well. Fixed dates: January 1, May 1 (Labour Day), June 23 (National Day), August 15 (Assumption), November 1 (All Saints'), December 25 (Christmas). Unofficial: November 2 (All Souls'), Variable dates: Easter Monday, Ascension Day, Carnival, Whit Monday (unofficial: Shrove Monday and Luxembourg Day in Luxembourg-Ville only).

■ Climate

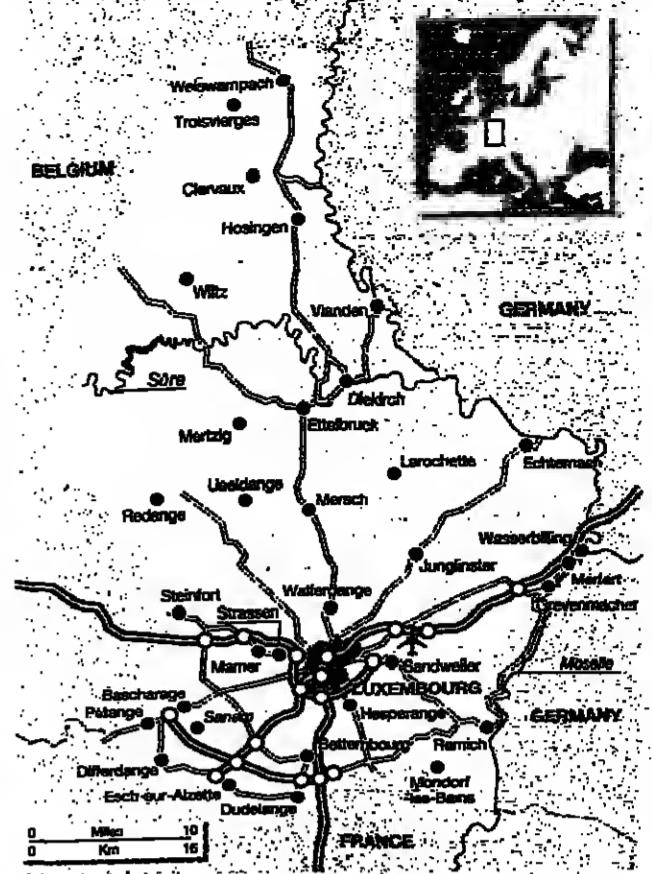
Temperate without extremes. See winds (south-west and north-west) shed a great part of their moisture before reaching the Luxembourg frontiers. July and August are the warmest, May and June the sunniest months.

■ Hotels

A one to five-star rating system partially in operation. Bills include service charge. Tipping optional.

■ Time

One hour ahead of GMT (Two from late March to late September).



IDA, IEA, IFAD, IFC, ILO, IMF, Intelsat, Interpol, IOC, IPU, ITU, Nato, OECD, UN, Unesco, Unido, UPU, WHO, WIPO, WMO.

Source: World of Information

PROFILE Jacques Poos

A stubborn optimist

Jacques Poos, the long-serving foreign minister of Luxembourg, is haunted by six fateful words. "This is the hour of Europe," he declared in June 1991, as he led a delegation of EU foreign ministers to Belgrade and Zagreb on a mission to halt the fighting in former Yugoslavia.

Mr Poos's words have become synonymous with the misplaced optimism, some say naivety, with which the European Union approached the Yugoslav crisis in its initial stages.

He belongs to a group of senior European figures such as Jacques Delors, then president of the European Commission, Hans van den Broek, then Dutch foreign minister, and an EU commissioner, who remain profoundly affected by the ensuing war - the most serious setback to collective security in Europe since the failure to stop Hitler.

Sitting in his ministerial office in Luxembourg, Mr Poos, a 60-year-old socialist, reflects on the events of 1992 and their relevance today as the EU prepares for next year's inter-governmental conference (IGC).

"It was the end of the bipolar world, the end of the Gulf war, and the start of the Yugoslav crisis in the Luxembourg presidency [of the EU]. The Americans said no vital US interests were involved, and it was up to Europe to take the lead. Their message was: It's your continent."

Mr Poos supports his case by picking up a signed copy of former US Secretary of State James Baker's recently published memoirs - the *Politics of Diplomacy* - and citing the relevant passages.

The Europeans were

deceived constantly by the warring parties, he says, and that includes not just the Serbs, the initial aggressors, but also the Bosnians and Croats. "They had only one objective and that was to capture territory and to drive out the people - ethnic cleansing - it was terrible... But at least we got Slovenia out of the mess, we stopped the conflict spreading, and the UN arms embargo prevented outside powers being drawn in."

Mr Poos remains adamant that the EU is a civilian power possessing economic rather than military instruments to reinforce its diplomacy. He is sceptical about the idea of outside EU intervention, despite claims in some French and Dutch

quarters that an EU expeditionary force of about 20,000 might have been able to mount an effective intervention in late December 1991/January 1992, primarily to stop the shelling of Dubrovnik.

Mr Poos betrays unease about the political drift in the EU toward looser co-operation between nation states rather than the traditional *communitaire* approach which includes elements of supranationality through the European Commission. "We don't want Europe to turn into a Great Power game."

In this respect, Mr Poos is critical of President Jacques Chirac's decision to resume nuclear testing in the South Pacific. He calls it an

"anachronistic and incomprehensible action", and reveals that he reprimanded Hervé de Charette, the French foreign minister, for failing to consult EU partners on the action.

Like his fellow Luxembourgers, who along with the British are the EU's most pro-US citizens, Mr Poos is wary of moves which may undercut the effectiveness of the Nato alliance, though he acknowledges that Europe should contribute more to its own defence.

Preserving the Community method is crucial for Luxembourg, he says, because it seems inevitable that next year's IGC will lead to a shift in voting weights toward the bigger member states. The Commission is the guardian of the smaller member states' interests, and Luxembourg intends to stick to its demand that all countries are represented with their own commissioner.

Though Luxembourg is ready to support an extension of majority voting in preparation for the next round of enlargement, Mr Poos says the Grand Duchy will insist on maintaining its right to a veto in six crucial areas: a new treaty, changes to the existing EU treaties, enlargement, fiscal affairs, EU association treaties and the seats of EU institutions.

Mr Poos, foreign minister since 1984, says he understands Luxembourg cannot hold the rest of the EU to ransom with unrealistic demands. His experience in two previous IGCs, in both of which Luxembourg acquitted itself well, should see him and the country through next time round.

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TECHNOLOGY

The drug responsible for severe birth defects in the 1960s is finding a new use, explains Marjorie Shaffer

Thalidomide takes on Aids

an initial response to invading viruses, bacteria or other substances. At high levels, however, the chemical causes immune system overdrive, leading to skin rashes, diarrhoea, fevers, as well as muscle wasting and loss of appetite.

"TNF has a lot of systemic effects in many diseases and it is a common mechanism for what makes people feel so ill," says Vogelsang. High levels have been found in some Aids and cancer patients, leading to severe weight loss. Thalidomide is being tested in these as a way to build muscle in the body.

The drug has also been used to treat painful mouth ulcers associated with Aids. "These people were literally starving to death because of the sores and many would respond dramatically in a week or two to the drug," says Vogelsang.

The drug's re-emergence has infuriated the people profoundly harmed by it. "We are outraged that thalidomide has suddenly reared its ugly head again," says Randy Warren, who heads the Thalidomide Victims Association of Canada. "We thought we were the only and last generation of thalidomides." It is estimated that 7,000 thalidomide victims are in the world today. At least 1,000 live in Germany, 14 known sufferers are in the US and more than 450 are in the UK. Many are severely handicapped and lead difficult lives.

While Warren understands why people with catastrophic illnesses may feel they have no other choice, he says the drug must be distributed under strict controls, "one dose at a time".

However, he worries that once on the market it will be used without strict controls, leading again to tragedy. In Brazil, where the drug was never banned, babies have been born recently with birth defects, he says. "All it takes is just one mishap for the next generation of thalidomides. This is a horrible drug."

At medical universities where thalidomide is being tested, researchers try to ensure that women will not become pregnant while they take the drug, says Arthur Caplan, a bioethicist at the University of Pennsylvania. Caplan



Celgene is working on an analogue of thalidomide that does not cause birth defects

reviews research protocols for studies funded by the government. "It is a bitter irony that thalidomide is responsible for women being under-represented in clinical trials. And it is back again at a time when there is increasing pressure to expand women's involvement in clinical trials." In FDA studies, women of child-bearing age must take two forms of birth control, have regular pregnancy tests, and sign an "informed consent form" detailing the effects of thalidomide.

Although clinical tests of thalidomide are similar controls in the UK, where the drug is manufactured by Penn Pharmaceuticals under licence from the Medicines Control Agency, the regulatory authority. Penn supplies many hospitals, where it is prescribed for sufferers of a range of conditions and diseases, including Aids. "There is also great hope in the treatment of rheumatoid arthritis," says Roger Jones, Penn's managing director.

The FDA came to us and said would we be interested in making this drug more widely available because people are getting it through illegal sources," says Stirling. Celgene is also trying to develop an analogue of thalidomide that does not cause birth defects. It recently reported that several of its analogues in laboratory tests were at least 400 times more active in "modulating" TNF than the original drug. It is not known yet whether they are capable of causing birth defects.

Many drugs are on the market today that cause birth defects.

These include Accutane, an acne treatment made by Roche, certain anticonvulsants and the antibiotic tetracycline, says James Mills of the National Institute of Child Health and Human Development in Bethesda, Maryland. "There is always going to be the question of how important the drug is for women and how dangerous it is for the embryo. And that has to be looked at on a case-by-case basis," he says.

Side effects are just beginning, news of its

effects has been travelling like wildfire through the Aids community.

"There is a huge demand for this drug," says Sally Cooper, director of People With Aids Health Group in New York. Last June, Cooper's group and others began buying the drug from Brazil and selling it illegally to people with Aids. Alarmed by the activities of these so-called "underground" buyers' clubs, the FDA met members of the groups last summer to ask them to stop selling the drug.

"They were distributing it without any medical supervision, and as you know, it causes birth defects and it can cause peripheral neuropathy (painful nerve damage), and that wasn't something that the FDA wanted to go on," says Arthur Whitmore, an FDA spokesman. The groups disagreed and went on selling the drug.

"The hysteria around thalidomide remains," says Cooper. "We have been distributing the drug since June and we have a very conservative programme. People have to get a new prescription every 10 days, read and sign a 20-page booklet of information on the drug. People with Aids aren't hysterical, we are careful about what we put into our bodies," she says.

Cooper says she will stop the group buying the drug from Brazil once it is more widely available from Celgene on an experimental basis. Indeed, Aids advocates were brilliant last month when the FDA gave Celgene permission to distribute the drug to Aids patients suffering from weight loss. This latest measure, expected to go into effect soon, will apply to a 12-week course of treatment, and the drug will cost \$3.4bn (£2.2bn) a year, says Stirling.

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Bell Labs invents a new future

Alan Cane on the response to the split-up of the renowned organisation

There was a touch of *déjà vu* about reactions to the news last month that New Jersey-based Bell Laboratories, home of the transistor, speech synthesis and Unix software, among other inventions, is to be split up.

The decision follows AT&T's decision to divide itself into three separate companies: telephone services, telephony equipment manufacturers and computing.

Some 20,000 of the organisation's 25,000 scientists and engineers will remain with the original Bell Labs. This will become part of the telecoms equipment manufacturing division - which provides most of its \$3.4bn (£2.2bn) annual budget.

The others will create a new research division within AT&T itself, working on topics of immediate relevance to the services company.

But people want to know, will

the world's most famous

industrial research centre be able

to maintain its ability to pour out a seemingly endless stream of inventions and scientific

discoveries? Will the change speed up a shift from basic

research to the narrower vistas of

product development?

Just under a decade ago they

were asking the same question

after Bell Labs lost hundreds of

staff to the newly created regional

Bell operating companies

following the break-up of AT&T,

the US's largest

telecommunications company.

Their fears at the time proved

unjustified. The changes resulting

from the latest break-up are

profound, however.

Don Stanzione, the president of

Bell Labs, says it will lose up to

20 per cent of its existing

research capability to the services

company. He argues, however,

that the services company needs a

strong technological division

within its own structure for

market credibility.

He and Arun Netravali, the

newly appointed head of research

at Bell Labs, are confident the

organisation has a future which

will prove as distinguished as its past.

Stanzione says: "I believe

the golden age for innovation in

telecommunications is still ahead

of us and I am excited about the role we can play in that future."

According to Stanzione, one significant advantage of the break-up is that it will put an end to the conflict between the products side of the company and the services business.

In the past, AT&T has been

reluctant to bring to market innovations which could hurt its business as a carrier. For example, research is under way on "software phones" able to carry voice conversations over data networks at significantly lower cost than conventional long-distance telephone calls.

Competitors have already introduced such products while AT&T waited on the sidelines.

"Now these conflicts will be resolved in the marketplace," Stanzione says.

He argues, moreover, that he expects to see little change in the 13-14 per cent of its budget Bell Labs spends on fundamental research without immediate applications.

However, the new Bell Labs will be more responsive to customer requirements, partly through the activities of Arno Penzias, the Nobel prizewinner. Formerly its head of research he is now chief scientist and will travel widely, talking to customers and relaying their ideas back to New Jersey.

With the end of strategic conflict between the products and services sides of the company, Stanzione expects to be able to bring innovations to market more rapidly.

It is going to be important to do so in an industry which is itself changing quickly. The centre of gravity of the telecoms services business, for example, has shifted suddenly from long-distance transmission to wireless transmission, on-line access and developments such as the Internet.

Among innovations in the pipeline are developments in optical storage, software for switching telephone calls and processing wireless signals.

Stanzione is himself a software specialist. These days, however, he is content to leave benchmark to his colleagues: "We turned into a real bureaucrat," he says.

"We are outraged that thalidomide has suddenly reared its ugly head again. We thought we were the only and last generation"

patients receiving bone marrow transplants. "There is a lot of interest in what thalidomide can do," she says.

The drug itself never entirely disappeared. In 1965, an Israeli doctor accidentally discovered that it cured a type of skin lesion in leprosy patients. Since then it has been used in thousands of people with leprosy, says David Stirling, who heads research at Celgene, a small operation based in New Jersey and one of a small number of companies at present developing the drug.

Thalidomide's power lies in its ability to inhibit an immune system modulator called Alpha TNF (tumour necrosis factor), says Stirling. Normally, the chemical is needed by the body's cells to mount

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Unlawful denial of access ruling

In a landmark case decided last week, the European Court of First Instance ruled that the Council of Ministers had unlawfully denied a British journalist access to minutes of ministers' private debates.

The Court said when a request was made for access to Council documents, it was generally under a legal obligation to balance the interests of the individual's access to information against any interest of its own in maintaining the confidentiality of its deliberations.

The case arose from a request by Mr John Carvel, a Guardian journalist, for access to several Council documents including minutes of meetings of the Social Affairs and Justice Affairs and Agricultural Affairs councils.

Under legislation adopted under the Maastricht treaty, the public is entitled to have access to Council documents under specific conditions. Access will not be granted where, for example, disclosure could undermine the protection of the public interest. However, when such provisions do not apply, the Council is only given a discretion to refuse access to its documents in order to protect the confidentiality in its proceedings.

Following the request, documents relating to the meetings of the Social Affairs Council were sent to Mr Carvel. However, access was refused to the documents relating to the meetings of the Justice Affairs Council on the grounds that they related directly to the deliberations of the Council and could not be disclosed under the rules of procedure.

Those provided that Council deliberations were covered by the obligation of professional secrecy except where decided to the contrary.

Mr Carvel was told the Agriculture Affairs Council documents were not yet available.

Mr Carvel then made a second request for the undisclosed documents. In reply, the Council said that if it allowed access to such documents, it would fail to protect the confidentiality of its proceedings. It also

said the documents relating to the meeting of the Social Affairs Council should not have been sent to him for the same reasons. They had been sent because of an administrative error.

Mr Carvel and The Guardian then brought an action for annulment of the Council's decision. The Court only examined one of their submissions - that the Council had infringed the legal provisions concerning access to its documents by expressing a blanket refusal to allow access to certain types of documents without carefully balancing the interests of the parties involved before deciding whether access should or should not be granted.

The newspaper relied on a statement made by the Danish and Dutch governments which confirmed in their view that the Council had not engaged in a balancing of interests before deciding to confirm the refusal.

The Council argued The Guardian had produced no evidence to support its allegation and claimed it had evaluated the relevant interests properly. It said the effective working of the Council would be jeopardised if national delegations knew that positions taken in Council meetings could be revealed to the public.

The Court ruled the relevant legislative provisions made it clear the Council, when exercising its discretion, genuinely had to balance the interests of the public in gaining access to its documents against any interest of its own in maintaining confidentiality.

It said the Council's reasons for refusing access indicated that it considered it was obliged to refuse access merely because they referred to its deliberations and disclosure would result in a breach of its rules of procedure.

The evidence provided by the intervening member states supported the conclusion there was no proper balancing exercise as required. The Court therefore concluded that the decisions refusing access should be annulled.

T-194/94: *Carvel and Guardian Newspapers v Council, CFI 2CH, October 19 1995.*

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INTERNATIONAL PEOPLE

Netravali named at Bell's dream factory

A pioneer of electronic images has been appointed head of research at AT&T's Bell Labs, the world's most famous "dream factory". Arun Netravali, 49, succeeds Nobel laureate Arno Penzias, who is taking the new position of chief scientist.

Netravali, born in India and educated in Bombay and the US, has much to live up to: "There is no question that I am stepping into very big shoes. Arno Penzias is my mentor and hero. I have worked with him for 20 years".

Netravali's move comes at a critical time for Bell Labs, which becomes part of the equipment manufacturing company after AT&T's recently announced break-up. He sees it as an important move for the Labs, which will make it easier to turn scientific innovation into marketable products: "In the past there have been strategic conflicts which have prevented the quick exploitation of new technologies."

Netravali spent time at NASA, working on the space shuttle, before joining Bell Labs in 1972. He was named communications sciences research vice-president in 1992. *Alan Cane*

this week to take up the post of division chief in the middle east department.

During the Irishman's time in Manila, relations between the IMF and the Philippines got onto an even footing for the first time in their long and turbulent relationship. Senior Philippine ministers now talk of graduating from the IMF's assistance programme within a year.

For Handy, who is being replaced by David Noller, a fiscal affairs expert, such a prospect would be entirely merited. "The Philippines has made enormous progress in the last few years," he said. "It has been very heartening to watch." *Edward Luce*

Joly joins Europay

Louis-Noël Joly, 57 (left), a senior executive with Société Générale, is to take the helm of Europay, the Brussels-based international payment card organisation.

Joly, an expert on smart card technology, replaces Ron Williams, 59, a former NatWest executive, who retires as chief executive next June.

Europay International, formed from a merger of Eurocard International, the European affiliate of MasterCard, and Eurocheque International, is the biggest card group in Europe with 18m cardholders having access to 124,000 automated

teller machines in 28 countries.

However, it is facing fierce competition from Visa International and Joly's technical background will be important as the next generation of card technology evolves internationally. *William Holl*

Nasko for research group

Horst Nasko (left), former vice-chairman of Siemens Nixdorf Informationssysteme, has taken over as chairman of Jessi, the joint European research programme set up to close the gap with the US and Japan in semiconductor technology.

Jessi, which is short for Joint European Submicron Silicon, currently oversees 72 projects involving 3,000 scientists and engineers in 16 European countries. The aim was to strengthen the position of Europe's semiconductor manufacturers and system houses. Nasko says it has enabled them to gain a clear lead in emerging markets such as cellular telephones and digital audio broadcasting.

The programme finished at the end of next year; it will be up to Nasko, a leading figure in Europe's co-operative research and development initiatives, to make sure that Jessi does not pass away without spawning further collaborative efforts.

Technologies company.

■ Gilles de Dunant has moved from Bankers Trust to BZW as managing director, investment banking services, with responsibility for France.

■ Peter Dietrich has joined Noranda Mining and Exploration as manager, project and operations analysis, from Mount Isa Mines in Australia.

■ Austrian-born Leopold Platner, president of Honeywell's Asia Pacific region, becomes managing director of Case Corporation's Europe, Africa, and Middle East business.

■ William Taylor, Commissioner of Police for the City of London, has been elected to the executive committee of Interpol for a period of three years.

■ Barry R. Barkley has become senior vice-president and controller of Great Western Financial Corporation. He was previously executive director for corporate re-engineering at Banc One Corporation.

■ Robert M. Kuhn, 53, has been appointed president of Rockwell Graphic Systems. He succeeds Robert L. Swift, 66, who is retiring. Kuhn was previously president of Hamilton Standard, a United

Technologies company.

■ Gilles de Dunant has moved from Bankers Trust to BZW as managing director, investment banking services, with responsibility for France.

■ Peter Dietrich has joined Noranda Mining and Exploration as manager, project and operations analysis, from Mount Isa Mines in Australia.

■ M.K. Moitra, 53, has taken over as the director (commercial) of the Steel Authority of India Limited (SAIL). Moitra has been joint secretary in the Ministry of Steel since June 1993, and a government nominee on the SAIL board.

■ Christopher Lee has resigned as chief financial officer of Grupo Tribasa, a leading Mexican construction company.

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ARTS

A home for painters

William Packer finds fresh ideas at the familiar 'John Moores'

Well, the John Moores, as it is familiarly known, is come round again, for the 19th time, as full of fresh new things as ever, and yet just the same.

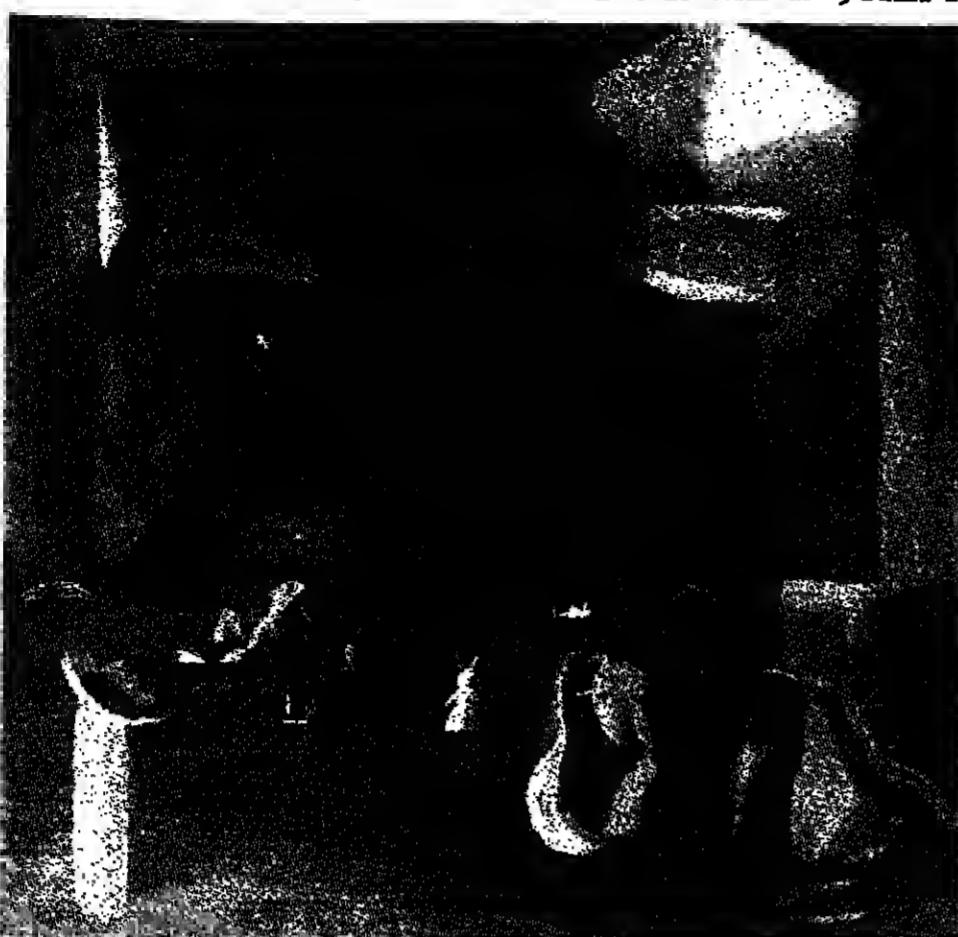
I must admit to a certain residual fondness for it, for I too have served my turn on its selection panel, many years ago, and still feel a proprietorial interest in what others have made of the job, tempered by a quiet *scheidenfreude* as the brickbats come flying in. How could they possibly have given that the prize? How on earth did that get in? It can't possibly go on like this.

Every time - and especially now that old Sir John Moore himself, its founder, protector and eternal sponsor, is dead - the talk is of crisis, reform and possible abandonment. And nothing changes very much. A different set of rooms in the splendid Walker Art Gallery may now be used. A mere cup of tea and a biscuit at the private view as reward for the journey from London, instead of the wine and cottage pie of the good old days, may betray leaner circumstances. But that is all I should certainly miss it were to go.

For it still holds its place, nearly 40 years on from its inception. Then, in 1957, it was quite alone. Other prize exhibitions and competitions have since come and gone. Others have matched and even outrun it in terms of notoriety and largesse. But still the John Moores is the one that painters of all persuasions, who yet consider themselves remotely modern and of their time, want to win.

Rather more than that, the winning is almost beside the point, for all that £20,000 to the winner and £1,000 apiece to the 10 runners-up is not ungenerous. The taking-part, and the note on the CV like a battle honour, is enough.

It is limited to painting, in the conventional definition of paint applied to a flat support and hung on the wall, but with



Recognition deserved: Mary Mabbott's "Big World, Small World"

no apparent limitation as to size. This alone, in times when it is often argued that painting is outmoded and increasingly irrelevant, is enough to give the Moores a real and general significance. And in the event, with familiar names conspicuous by their absence and rather more than half the show supplied by artists more or less unknown, it is most encouraging.

Not everyone sends in, of course, and with a total submission of 1,644, the trend appears to be down by some 30 per cent from my day. But if fewer are called, fewer are chosen, which leaves the odds again getting in much the

same, at about one in 27. Sixty works make up this exhibition, which is indeed ungenerous and a mistake.

There was a time when the Moores held twice that number and was no worse. To plead the more constricted space is disingenuous, for the chosen paintings are more uniformly, conventionally, plonkingly large than in any Moores I can remember.

The present orthodoxy, which too many artists accept unthinkingly, that large is necessarily more important and significant, is to be resisted. But small works do get bullied

out of it in such shows as this unless the jury insists otherwise. If they are, it is the jury's fault.

A small show also makes the selection more difficult than it need have been, especially when the jury is obviously divided in interest and compromise elusive. This year, by all accounts, there was blood on the floor, and pious regret on all sides at what was left out at the final cut. Well, in that case, it could and should have been left in.

As it is, the general impression is of a selection fairly evenly split between abstract and figurative, but figurative only of a quirky narrative

out of it in such shows as this unless the jury insists otherwise. If they are, it is the jury's fault.

With a taut libretto by Cammarano, *Sofia* tells the story of a classical Greek poetess whose thwarted love leads her to suicide. Pacini's score - generally considered his best - is notable for the way he knits the solo contributions into extended musical numbers, achieving a less artificial atmosphere than is usual in pre-romantic opera. But the "maestro delle cabarette", as Pacini was known, still manages to pull off a succession of remarkable display pieces.

Notwithstanding the tiny stage of Wexford's Theatre Royal, the opening performance last Thursday had grandeur and opulence - for which the disciplined responses of the conductor, Maurizio Benini, laid a vital foundation. As Clémene, the young Bulgarian mezzo Mariana Pencheva swept all vocal honours, thanks to her musicality, thrusting tone and a perfectly smooth progression from ample chest register to exciting top. Beni Montreras's superbly lit staging was more decorative than dramatic.

Both composers were searching for a new direction. The prolific Pacini sought an escape from the structural and emotional straitjacket of *bel canto*. Mascagni experimented with symbolism as an antidote to verismo. It was their misfortune to have their efforts overshadowed by bolder, more

inspired contemporaries.

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The score has its share of pretty choruses and veristic crescendos. The conductor, Bruno Arrea, deserves credit for making it all sound so tautly convincing. Michèle Nakamura's soprano was too shrill for the title role, though she acted well.

The beefed-up festival choirs, along with the RTE Symphony Orchestra in the Theatre Royal's newly expanded pit, was also the chief glory of Rimsky-Korsakov's *May Night*. Stephen Medcalf's staging of this Gogol-inspired folk comedy had the look of a primitive touring production, relieved by the comic gifts of a predominantly Russian cast and the radiant Slavonic tenor of Vsevolod Grinov.

Opera/John Allison

'The Fairy Queen'



Well-sung: Janis Kelly

Victorians to contemporary grey-suits and fetishists. The cost of the show - this is, after all, the team that created *Glass's The Voyage* at the Metropolitan Opera - to a cash-strapped company does not bear thinking about. More depressing is the apparent cynicism of producer who - as the 1983 *Rusalka* now in revival reminds - once believed in the power of opera.

Alas, the musical compensations are not great. Nicholas Kok, often an alert, stylish conductor of Baroque opera, was dull and inflexible on opening night. Without the possibility (as at Covent Garden) of raising the pit, the orchestra - a mix of conventional instruments and "period" trumpets, lutes, drums and recorders - sounds with less than ideal attack.

Yvonne Kenny's sensuous-looking Titania is an unexpected disappointment, her "Plain" hard-edged and gracelessly phrased. Thomas Randle's virile tenor makes him an exciting Oberon, and Michael Chance's sweet-toned counter-tenor provides his character. Nick, with some credibility (his camp is of a class missing elsewhere), Strangely, the celebrated counter-tenor number "One charming night" went to a smaller-voiced, hoody singer. Richard Van Allan, never a Purcellian and now in threadbare voice, brings as much dignity to Theseus as permitted.

When allowed to sing straight, Jonathan Best (Drunken Poet) is good, and there are lively, well-sung contributions from Yvonne Barclay, Mary Hegarty, Janis Kelly and Mark Le Brocq. Simon Rice's Puck stands out among the dancers.

Performances at the Coliseum until November 23.

Phyllida Lloyd's new staging of Congreve's 1700 comedy *The Way of the World* is daring, refreshing and nearly marvellous. Perhaps the production's greatest dare lies in Anthony Ward's designs: which give us an ultra-modern, or rather post-modern, London, very Vivienne Westwood, while full of references to the Restoration era in which the play was written. The ladies wear brief, chic mini-skirts (billowing trousers for Millamant) as part of outfits that also include long, full trains; the gentlemen wear three-piece suits whose jackets are full frock-coats; the ladies use fans and dark glasses. Lloyd has discreetly edited the text, cutting the more blatantly period references.

Other signs of the production's quality lie in the fact that the play's most complex role, Mrs Marwood, becomes, in the hands of Sian Thomas, its most interesting; and that one of its "period" top roles, Anthony Witwood, becomes, with Julian Rhind-Tutt, its most modern. Amid a strong cast, these two performances stand out. With glamour, authority and feeling, Thomas gives us every warring facet of Mrs Marwood: the hypocrite, the spy, the schemer, the courier, but above all the wracked woman in whom disapproving love for one man has turned into hatred for the world.

With Rhind-Tutt, Witwood's affectations become so transparent that this silly man of fashion becomes, of all darling things, vulnerable. His idle

Theatre/Alastair Macaulay

Daring look at way of world

banter is, actually, artless. "But I talk like an old maid at a marriage, I don't know what I say," he says with his knees together and bobbing rapidly to both the men with whom he is conversing. And on he bubbles, helpless and forever boyish right up to his final delicious remark: "Egad I understand nothing of the matter - I'm in a maze yet, like a dog in a dancing school." Veronica Quilligan brings poignancy to the role of Mrs Fainall; and Anthony O'Donnell makes the rustic Sir Wilful Witwood believably, and funny even in the drunk scene.

But these are not the roles by which *The Way of the World* is usually best remembered. Lady Wishfort is Geraldine McEwan, Mirabell is Roger Allam, Millamant is Fiona Shaw. All three give accomplished but narrow performances that will remind theatre-goers too often of performances they have given before. This is at its most vexing with McEwan's Wishfort. Visually brilliant she wears a Barbara Cartland visage (black artificial eyelashes heavying heavily through a chalk-white

facade) and, in later scenes, a Christian Lacroix-type puff-mini-skirt of multiple rosebuds.

A dipsomaniac, she ends up in decline on some refuse bags - a stroke that looks like too much about McEwan's performance, like the merest effect. Vocally, she is infuriating. Any old once-delicious vocal trick - those octave plunges, those affected diphthongs ("Mey dyah") - is trotted out so that she shows off affectations even at the passages when Wishfort should be at her most ragbagly sincere.

Ten years ago, many of us thought that God had made Shaw to play Restoration and 18th-century comedy. But now that she has returned to this? Perhaps she wishes to show to this? Perhaps she wishes to show Millamant as a fashion-plate who wars against fashion; but she obscures, rather than illuminates, the role's self-contradictions.

Sure, she has dropped most of the mannerisms that have marred her recent interpretations. Sure, she is a star, always commanding attention.

In Royal National Theatre repertory at the Lyttelton Theatre, South Bank.

But why the stupid Berkoffian mime with which she illustrates such famous lines as "I may by degrees dwindle into a wife" (shrinking down to do him obeisance)? And - though, now and then, she shows a stillness and a dignity to make everyone else onstage look small-scale - hers overall is a busy, fidgety performance.

Allam is much simpler. Always relaxed, urbane, focused, this actor is a model of discipline; and he plays so well to Shaw that her most charming moments are in response to him. But his intonation is too often jaded. He speaks lines as if he were already bored by them. Millamant could not be more believable, and funny even in the drunk scene.

The difficult role of Fainall is undercast; Richard McCabe plays him like a villain of Victorian melodrama. Cyril I Nri's Petulant is loud and unfunny.

As the sum of all these parts, this *Way of the World* is a puzzlement. And Ward's designs, like some of the leading actors, draw too much attention to their own contrivances. Act Four features some fleshy changes of scene that actually diminish Congreve's drama-turgy; and Act Five, set in the street outside Wishfort's house, does not ring true. The first three acts of this production give us the way of the world; the latter two give us the way of the theatre.

In Royal National Theatre repertory at the Lyttelton Theatre, South Bank.

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● La Damnation de Faust: by Berlioz. Conducted by Gabriele Mazzoni and directed by Luciano Damiani. Soloists include Marilyn Schimmele, Keith Lewis and Ludwig Baumann; 7pm; Oct 29.

■ VIENNA

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● Czech Philharmonic: with soprano Angela Maria Blasi and bass-baritone Thomas Quasthoff. Gerd Albrecht conducts Eben, Mahler and Dvořák; 7.30pm; Oct 28.

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Wexford Festival/Andrew Clark

Reflections from Italy

Wexford is *suf generis* - which is why the festival in this little Irish seaside town continues to shine like a beacon on the international horizon. There was no clear winner among this year's trio of operas, but all were worth hearing - not least because Wexford's musical standards have reached a new high. That says something about the impact of the incoming artistic director, Luigi Ferrar.

Is there any discernible trend in all of this? No, and we needs must fall back on the particular works, taken on their merits.

Of those who come away amply-handed, Noel Forster's systematic overlaying of dense meshes of colour is as distinguished as ever. Leonard McCollum's large still life should have walked off with the prize and John Holden's minimalism holds its own with a strong helping of expressionism in the middle.

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Paul Butler's looming flyover at full red dusk was another unlucky not to be rewarded. There are good and characteristic things from Anthony Green, Ken Kirr, Albert Irvin and Arturo di Stefano, and of those names new to me, I particularly liked Gavin Robson's richly painted scatter of objects in an interior and Harriet Guiness's block of flats.

Paul Green's full-length portrait of his wife would certainly have been on my list, as would Jane Walker's free and confident "House for a Homeless Person", in which formal and abstract elements set off the representation of building and landscape. Again, both artists are new to me. And it is good to see Mary Mabbott, whose London show at the Paton Gallery I mentioned last weekend, being recognised at this level.

David Leaper's ponderous "Double-tongued Knowability", with its self-conscious interplay of hard-edged abstraction and scrawled graffiti-like imagery, carries off first prize.

As it is, the general impression is of a selection fairly evenly split between abstract and figurative, but figurative only of a quirky narrative

kind. Certainly there is nothing worked directly and objectively from the thing seen, no life or figure painting nor any landscape that is not self-consciously modified or formally excised in some way. As for the abstraction, it runs from hard-edged minimalism to conceptual formalism, with a strong helping of expressionism in the middle.

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kind. Certainly there is nothing worked directly and objectively from the thing seen, no life or figure painting nor any landscape that is not self-consciously modified or formally excised in some way. As for the abstraction

When Lord Yoong, chairman of Cable and Wireless of the UK, declared in Jerusalem earlier this year that European companies were ready to invest in Israel, many Israelis dismissed his remarks. They regarded his words as typical of the rhetoric of businessmen who have flocked to the Middle East recently with promises rather than cash.

So when a few months later Cable and Wireless bought 10 per cent of the shares in Bezeq, the state-controlled telecommunications company, for \$150m, the government and local business people were caught off guard.

Israel will look back on 1995 as the year when international finance and business discovered its thriving economy. Net foreign direct investment reached \$673m in the first six months, a 60 per cent increase on the \$412m invested in the whole of last year, according to the central bank. Foreign investment in tradable securities on the stock market grew to \$231m in the first half of this year, 26 per cent higher than the \$185m invested during 1994.

Foreign interest has been stimulated by Israel's peace agreements with Arab neighbours, the government's continued deregulation of its once state-dominated socialist economy, and faster than anticipated economic growth.

Last Friday Intel, the US computer chip manufacturer, announced an agreement to build a \$1.8bn semiconductor facility in southern Israel - the country's largest private foreign investment to date. "The American business community sees this as an expression of confidence in the Israeli economy and in Israel," says Mr Avraham Shochat, finance minister. "It creates the view of Israel as a place with the manpower and the technology to attract a project like this."

Mr Dov Frishman, general manager of Intel Israel, said the company's decision to invest further in Israel would attract more foreign capital, intensive investment, particularly in Israel's emerging high technology sector.

Other big deals announced this year include:

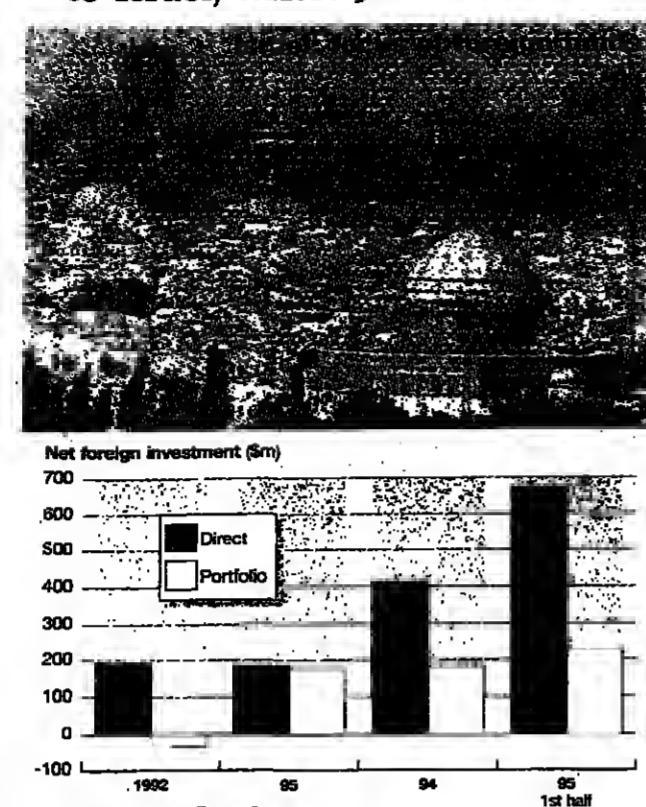
- a memorandum of understanding between Germany's Volkswagen and the Dead Sea Works to build a \$600m magnesium processing plant;
- the purchase of 22 per cent of Koor Industries, Israel's largest conglomerate, by Shamrock, a US investment company, for \$252m;
- Volvo's acquisition of 50 per cent of Merkavim, Israel's largest bus manufacturer;
- the \$300m purchase of Lanet Data Communications by UK-based Madge Networks;
- and an option taken by Swiss-based Nestlé to buy 10 per cent of Osem, Israel's second largest food company.

Israel as the fulcrum of economic development in the region and we are taking the view of the next 20-30 years," said Lord Sterling, chairman of P&O, the UK shipping company, during a visit to the country earlier this year.

Foreign investors have also expressed growing confidence in the macro-economic policies of the government. Despite restrictive monetary policy since late 1993 and pessimism about the impact of high interest rates on the economy, figures published yesterday by the Central Bureau of Statistics suggest growth this year of 6.8 per cent - after five years of strong growth averaging more than 5 per cent annually.

At the same time inflation, which last year reached 14.5 per cent, is set to fall to about 9 per cent for 1995, and unemployment has declined from 11.3 per cent in 1992 to 6.2 per cent of this year.

"There are going to be a lot more deals to come."



Peace hopes and economic growth are drawing foreign investment to Israel, writes Julian Ozanne

new immigrants a year. "We are going to meet our target of inflation for this year of 8.11 per cent," says Mr Jacob Frenkel, central bank governor. "Our record shows in a conclusive way that all the scares and arguments that fighting inflation will cause excessive slowdown in the economy have been dramatically refuted. We have proved it is possible to reduce inflation while maintaining and accelerating growth."

But the approach of elections in November next year has drawn attention to the debit side of Israel's economic score sheet - its failure to push ahead with privatisation and improve competitiveness in the face of opposition from public sector workers and vested interests. Although the government is still talking about the privatisation in the coming year of Bank Hapoalim and Zim, the shipping company, many economists remain pessimistic about its political will in an election year.

Concern is also growing about the medium-term impact of rapid growth. The most important problem is the current account deficit, which is set to rise from \$2.5bn last year to \$4bn this year. The central bank believes the rapid fall in unemployment and a 15 per cent increase in the M1 money supply in the first eight months of this year are warning signs that overheating needs to be avoided.

Some foreign investors welcome warnings of further restrictive monetary policy, as a signal that the central bank is determined to continue the fight against inflation. Others say the warnings emphasise the difficulties of taking demand pressures out of the economy; point towards a continuing strong shekel with pressure on corporate profits; and further delay the re-entry into the stock market of local investment funds.

But as long as the fundamentals of Israel's economy point towards solid growth, new foreign markets and expanding corporate profits, the flow of foreign investment and the pace of mergers and acquisitions are likely to continue.

"For foreign investors Israel has reached the position where it is no longer an emerging market. It has emerged. And the growing level of sophistication and depth in the economy will guarantee continuing foreign interest," says Mr Lubash. "There are going to be a lot more deals to come."

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State of attraction

Peace hopes and economic growth are drawing foreign investment to Israel, writes Julian Ozanne

Europa: Dominique Moisi

End of age of innocence



With the possibility that the communists will win more votes than any other party in Russian parliamentary elections in December, it is time for Europe to define its relationship with that vast country. Should it be contained, balanced or integrated? Should Russia be perceived as a renewed threat, a pillar of European stability or outside the European Union or a potential member of an enlarged EU, albeit in the distant future? Europe's hesitancy in addressing this vital question stems as much from the disagreements between Europeans about what they want the EU to be as from their doubts and uncertainties about Russia itself.

For two years after the collapse of the Soviet Union, western Europeans - and Americans - deluded themselves into believing that *homo sovieticus* could be instantly turned into *homo economicus*. Russia contributed to this illusory Age of Innocence by turning its back on its communist past and wholeheartedly embracing western values. The country was seen by some in the west as a clumsy and less gifted Federal Republic of Germany: a pupil willing to make amends for past faults and to catch up with the rest of the class; to join the western, democratic, capitalist world as quickly as possible.

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shrewdly played on these fears in an effort to win the west's support and understanding.

Today the Age of Innocence is over. Russia is back with an assertive vision of its national interest and an unclear definition of its political future. Russians describe this new nationalism as "enlightened patriotism". But can there be any such thing as enlightened patriotism in a country whose historical identity has been imperial since at least the 17th century?

Given Russia's attitude towards its former empire and its unstable political situation, what stand should Europe take?

It has three choices. The first is the simplest and the least desirable: namely to cast Russia in the role of "bad guy", as simply a continuation of the Soviet Union. Proponents of this course of action argue that an ultra-nationalist Russia would be no less dangerous than a communist one.

They say the combination of Russia's nuclear strength (the large number of missiles in its possession) and its nuclear weakness (the risk of new Chernobyls) means that it remains the most serious threat to western Europe. Similarly, for most central European countries, Moscow remains an important security concern.

But while some in the west dream that Russia might take the Federal Republic as a model, the majority were worried that the Weimar Republic might turn out to be a more appropriate precedent. These pessimists realised that it was essential for the west to do its utmost to prevent Russia's humiliation and isolation after its cold war defeat. Russia

Union: it is at the same time too weak militarily and too dynamic economically.

Europe's second choice would be to treat Russia as one of the two pillars of a new European order. Advocates of this policy believe Russia is too large and too ethnically diverse ever to be accommodated in the EU - irrespective of the EU's future shape. Yet, they argue, this very strength and diversity means it should not be left out in the cold.

Consequently, they believe, Moscow should be encouraged to develop a role as the focal point of a new Euro-Asian conti-

nuum, the eastern equivalent of Brussels's position as the focal point of western Europe.

Under this geo-strategic vision, countries to the west of Russia - including the Baltic republics and, perhaps even, Ukraine - would be part of the western European grouping. But all territories to the south and east of Russia - which are in the Commonwealth of Independent States - would be in Moscow's sphere of influence. This division of responsibilities is already in place to some extent, as illustrated by the discreet nature of the west's condemnation of the way Russia dealt with the Chechen revolt.

There is no need for the new Europe of the west, centred on the EU, and a new Europe of the east, centred on Moscow, simply to repeat the cold, cynical power games of the past. Russia's treatment of the less powerful states in its zone would be an important determinant of whether its future, Russia is not about to change back into the Soviet

halves of Europe developed.

Under this sort of arrangement, Russia would be kept at arm's length from the core of Europe - but only because it was too important to be accommodated satisfactorily by the EU. Supporters of such a structure believe Russia would be proud to be seen as one of the two pillars of a new European order, and to recover a modified version of its traditional European role.

Europe's third choice is much more positive: some would say utopian. It envisages a democratic and prosperous Russia being granted admittance in time to an enlarged, loosened and modified EU.

Proponents of this course see Russia, perhaps with Turkey, constituting the outer rim of this enlarged EU. They argue that if Europe is to maximise its influence on world affairs, it needs to have Russia on board. By the same token, they say, Russia needs a close relationship with Europe and the west to act as a counterbalance to China's growing influence.

It may be that Germany is at present more willing to accommodate this close a relationship with Russia than the other main EU member-states.

The way in which the relationship actually develops may combine elements of all three of these possible scenarios. A more nationalistic Russia would undoubtedly once again be a force to be reckoned with in international affairs. But its influence would have to be balanced, contained and, if possible, slowly integrated by Europe. Ultimately the decisive factor in how events unfold will be whether or not Russia remains on a democratic path.

The author is deputy director of Paris-based Institut Français des Relations Internationales. He writes here in a personal capacity.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171 873 5936 (please set fax to 'line').

Translation may be available for letters written in the main international languages.

Fed-Bank of Japan accord has close parallel with past

From Dr Marc Flandreau.

Sir, I believe that you are quite right in your editorial "Fed-Bank of Japan accord" (October 20) to draw a parallel between the recent Fed-Bank of Japan accord and central bank co-operation during the gold standard, 1880-1913.

However, contrary to what you argue, I think that the parallel should be taken quite far.

First, you oppose old and recent experience on the grounds that 19th century central bank co-operation was aimed at stabilising the

exchange rate regime (or equivalently, gold convertibility) while current co-operation is aimed at stabilising the banking system.

But what is the justification for the Fed's action except avoiding further depreciation of the dollar in case of a collapse of Japan's banking system?

Second, while Bagehot did not advocate penalty rates for central bank lending in case of financial crisis, the actual record of co-operation between the Bank of France

and the Bank of England shows that short-term emergency advances were made at (or even under) market rates, and backed by government bonds (British Consols or French Rentes), very much like what would happen under the Fed-Bank of Japan scheme.

But we all know that history does not repeat itself.

Marc Flandreau,
Observatoire Français des Conférences Économiques,
69 Quai d'Orsay,
75007 Paris, France

Curate's egg

From Mr Edwin Richards.

Sir, Your leader "Real shadows" (October 20) makes the mistake that the curate's egg was good only in parts. The point of the story is that the curate's egg was totally rotten, but the curate was too afraid to point this out to the bishop. I hope the Financial Times is not too afraid to offend the Labour party.

Edwin Richards,
47 Mabro Road,
London W1 0LU, UK

Time on everyone's side

From Lord Monson.

Sir, Mr Les Robinson (Letters, October 20), writing from Brighton, is concerned that the business relationship he is developing with a company in northern France may be impeded by the hour's time difference between the two countries.

American businessmen take in their stride the hour's time difference between Chicago and Detroit, just over 200 miles away, and even the three hours' difference between Los Angeles and New York. Businesses across Canada and Australia cope equally well.

Surely we in Europe are robust and ingenious enough to shrug off as a very minor nuisance our own relatively time differences, stemming as they do from the realities of longitude, latitude and the rotation of the earth.

Monson,
House of Lords,
London SW1A 0AA, UK

From Jan R. Harrington.
Sir, I find it incredible that

Les Robinson would operate so inefficiently as to be out of touch with French colleagues due to lunch times being offset.

Do they also lose touch for eight weeks a year with holidays being offset? Surely in that area people provide constant coverage. The same is eminently possible in the regular work days. Some people can start work at 7am and end at 3pm, others can start at 11am and end at 7pm. They can take staggered lunches. All this was possible and done 25 years ago, when I was working in London in an office with flexible working hours. The time on the clock is irrelevant to co-ordinated, efficient work.

Added to the flexible working hours that existed in 1970, there are now mobile phones and laptop computers with portable fax-modems. I work in New York and have no problem in keeping in touch with colleagues in Chicago, Denver, Los Angeles and Honolulu.

Jan R. Harrington,
Bozz 746,
Sevenoaks, Kent TN14 0JS, UK

New York, NY 10116, US

New Zealand bank governor has own definition of inflation

From Mr Geoffrey Gardiner.

Sir, Peter Montagnon's update ("Bank governor passes first inflation test", October 22) on the effectiveness of anti-inflationary measures taken by Dr Don Brash, the governor of the Reserve Bank of New Zealand, ignores, like all British reports, the significance of the special measure of inflation which Dr Brash uses. The only clue your readers will have had that something funny - by British standards - was going on was the small-print note at the bottom of the reserve bank's handout which you reproduced.

It reads: "Consumer prices adjusted to exclude effects of interest rate and tax changes and extraneous price shocks

like sharp movements in oil prices."

UK economists no doubt expect ignorant colonials to follow their definition of "headline" and "underlying" inflation, and would be astounded to find that Dr Brash is way ahead of them in his understanding. His contract with the New Zealand government contains his own definition of inflation. It excludes all effects of interest rate changes.

A friend in New Zealand has provided me with a videotape of a programme on Dr Brash and in it he states with regard to the decision to exclude the effects of interest rate changes: "The government said no, it should not [include interest rates] because if it does you get

Kenneth Clarke, the UK chancellor, estimated the effect on industrial costs of the fall in interest rates since 1990 at \$26bn, or 8 per cent of gross domestic product.

Dr Brash also rules out variations in import prices. That means that the large oil price rise in 1973 should have been ignored. Today it means that the rise in the price of newsprint should be ignored. Perhaps if Dr Brash's rules were applied, we would find that we are in a deflationary situation and that interest rates should have been lowered long ago.

Geoffrey Gardiner,
3 Molly Potts Close,
Knutsford,
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FINANCIAL TIMES

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Tuesday October 24 1995

The UN that we deserve

The foundation of the UN, whose 50th anniversary is being commemorated in New York today, coincided with the high watermark of state power. It was the product of the greatest interstate war in human history so far, during which states – democratic as well as totalitarian – had mobilised the efforts of their citizens on an unprecedented scale.

Governments had assumed enormous powers and responsibilities. Not surprisingly, they believed themselves capable of organising the postwar world, and accepted responsibility for doing so. They undertook in the preamble to the charter, "to save succeeding generations from the scourge of war", to ensure respect for international law and "to employ international machinery for the promotion of the economic and social advancement of all people".

Fifty years later the limitations of state power are much better understood. Most people would now accept that economic and social advancement are more likely to be promoted by private investment and the operation of free markets than by bureaucratic machinery, whether national or international. Most states have overreached themselves in the proportion of their citizens' income they tax and spend, and are seeking to trim back rather than extend their responsibilities.

An impressive number of states did turn out to enforce international law when it was broken by Saddam Hussein five years ago. But such textbook breaches are the exception, not the rule. Most conflicts nowadays are messy affairs, fought largely between citizens of the same state. Aggressor and victim are often hard to disentangle. The scale and international implications of a crisis are seldom apparent until well after the point where it could be easily dealt with by external intervention. Not surprisingly, states are reluctant to accept responsibility for such conflicts, except when their own interests are at stake.

These facts explain what some perceive as the UN's failure. There are also secondary causes: bureaucracy, waste, corruption, incompetence, a US invention.

Tenure, appointments on the basis of national origin rather than merit, the multiplication of departments and agencies, unwillingness to abolish entities which no longer fulfil any useful role; the failure of some states to pay their dues; and the resentment of others at the dominant role played by the permanent members of the Security Council, seen as unrepresentative of the membership at large. But those failings are all within the power of member states to correct, if they could agree to do so.

The UN's "financial crisis" concerns a tiny fraction of many member states' defence budgets. Most of the specialised agencies are funded mainly from voluntary contributions, which puts responsibility squarely on the donor governments to use their funds more discriminately. The core UN functions do depend on assessed contributions, including a separately assessed peacekeeping budget which is currently being raided to plug gaps in the regular one. Unlike its members, the UN is not allowed to borrow at all.

These problems could be solved overnight if there were the beginnings of a political consensus among members about what the UN should actually do. That consensus is lacking, partly because rich and poor countries have different priorities, but mainly because the US, the architect of the UN and still by far the richest and most powerful of its members, is afflicted by recurrent doubts about its utility.

Both the Bush and the Clinton administrations have striven to convince Congress that the UN on balance serves US interests, and indeed gives good value for money by managing problems which the US cannot or does not wish to deal with unilaterally. Their success has been at best indifferent, and the present Congress seems to be moving in the opposite direction.

There is now a real danger that the UN could relapse into the sounding-board for impotent rage that it was in the 1970s. To avoid that, the rest of its members must find a way to reawaken US enthusiasm for what was, after all, pre-eminently a US invention.

Dasa restructures

It is sometimes argued that Daimler-Benz Aerospace (Dasa), Daimler's arms and aircraft subsidiary, has made the fundamental error of competing in a dollar-based business with D-Mark costs.

Yet other German businesses – including the machine-tool industry and Daimler's own Mercedes cars – have successfully competed in dollar markets. In so far as Dasa's problems are those of cost, yesterday's restructuring announcement is a first step towards addressing them.

In reality, Dasa's problems go deeper, back to the company's origins in the 1960s. Dasa came into being as a match between Daimler's interest in diversifying out of cars and trucks and the perceived public interest in creating a national champion in aerospace. Both aspects of this bargain were flawed. Daimler underesti-

imated the costs of diversification, and the threat this would pose to maintaining its leadership in cars.

And the close governmental involvement in creating Dasa was a barrier to the harsh decisions needed to make it competitive. Mr Jürgen Schrempp, Daimler's new boss, is now facing up to these issues. For his strategy to succeed, however, the company – and the country – will have to overcome its ambivalence about the military side of the business. The civil aviation side will need to find solutions for its commercially unsatisfactory affiliates, Airbus and Fokker. And Dasa must find fresh comparative advantages in aerospace, to make up for the absence of the quality edge Germany has in machine tools or luxury cars. Yesterday's restructuring is indeed a first step; there are many more to follow.

The heart of the problem is that the lottery is a scheme for redistributing large amounts of money, collected in part from some of the poorest people in the UK. The panels in charge of the awards could avoid controversy only if they had a strong claim to legitimacy, derived from public support. The great and good who now make the decisions cannot make that claim.

It is worth investigating whether the panels' decisions could be bolstered by public votes. For example, punters could be asked to indicate preferences when buying a ticket. However, this would be useful only to select broad categories of project. It would be impossible to provide detailed information on the competing applications for funds; the charities section alone has received 15,000 requests.

The only effective solution is to introduce much more transparency into the decision making, possibly through more public meetings. The panels also need to find ways to allow people to make their views known.

Inevitably, such a process would be the target of intense lobbying, in which the best funded and best organised groups would be able to exert more influence than smaller ones. But lobbying already happens behind closed doors; bringing decisions into the open is the only way to give the panels the legitimacy they currently lack.

Such measures would not automatically eradicate public unease. But without them, controversy over the disbursement of money may well undermine the lottery itself.

Lottery loot

It is a mystery that ordinary people and politicians still have such high hopes for the UK National Lottery. For individuals, the chance of winning the jackpot is so small as to make buying a ticket frankly irrational. For ministers, it is certain that the process of doling out dollops of lottery cash to selected worthy causes will embroil them in controversy. If a better way of distributing funds is not found soon, the lottery could prove unsustainable.

Yesterday's announcement of the first charities chosen to receive lottery money highlights the fact that, under the present system, almost any award is capable of triggering a row. The problem is common to all of the categories chosen to receive money – charities, arts, sport and the Millennium Fund.

In each case, the question of the appropriate size and geographical distribution of the awards is unresolved. In setting up panels to award the money, the government sidestepped the question of whether money should go to large, national projects or small, regional ones. That leaves big projects open to attack on the grounds of elitism, while small ones are liable to be mocked for their apparent whimsicality.

Charities, perhaps, are less controversial than the other categories since they are perceived by definition to be worthy causes. But the choices of themes – environmental, community aid and so on – is still questioned by many. Medical charities, which claim to have seen sharp drops in donations since the lottery started, have bid successfully for a slice of

the cake, but may ask for more. The heart of the problem is that the lottery is a scheme for redistributing large amounts of money, collected in part from some of the poorest people in the UK. The panels in charge of the awards could avoid controversy only if they had a strong claim to legitimacy, derived from public support. The great and good who now make the decisions cannot make that claim.

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Such measures would not automatically eradicate public unease. But without them, controversy over the disbursement of money may well undermine the lottery itself.

The caustic verdict of one senior Japanese government official on the chaotic events at Daiwa Bank in the past month sums up the wishful thinking of many in Japan's financial community. "Typical Daiwa," he says – "typical Daiwa."

The \$1.1bn loss from unauthorised bond dealing at Daiwa's New York branch, and subsequent attempts to cover it up – according to this establishment view – an isolated case attributable to determined criminal activity by one rogue trader and uniquely lax management. The case holds no lessons for the rest of Japan's banking sector, the argument goes.

But as more details of the Daiwa affair seep out, that judgment looks increasingly suspect.

The reaction of Daiwa's management and the Japanese regulators to the discovery of the losses reflects an institutional approach – emphasising the importance of stability rather than the need for openness – that dominates most of Japan's business and society.

It is an approach that is causing increasing nervousness among international bankers, who have not embraced the "typical Daiwa" thesis. Since the revelation of Daiwa's losses, the Japanese banks have faced a sharp rise in the cost of the funds they raise in international money markets – up to 0.6 percentage points over market rates. Many are seeing credit lines trimmed, and for a growing number of Japanese banks borrowing rates in US dollars are now greater than the rates at which they lend.

The fear is not that there is a dealer such as Daiwa's Mr Toshiaki Iguchi in every Japanese bank's dealing room; the events of the past couple of years have demonstrated that the predations of the rogue trader – at Barings, Kidder Peabody and elsewhere – are not confined to Japanese institutions.

The concern is rather that the Japanese institutional tendency towards secrecy may now be disguising greater problems even than those at Daiwa. When Japan's economy was still growing strongly in the 1970s and 1980s, the secrecy was not an issue. But the economy's problems have visibly proliferated in the past five years, and the scale of the invisible problems is a frightening unknown for foreign bankers.

Rather than come clean immediately, Daiwa attempted to cover up its losses, according to both Mr Iguchi and Mr Hiroyuki Yamaji, who resigned as managing director earlier this month. The bank was anxious to maintain stability and to avoid causing "confusion" in the market.

There is now a real danger that the UN could relapse into the sounding-board for impotent rage that it was in the 1970s. To avoid that, the rest of its members must find a way to reawaken US enthusiasm for what was, after all, pre-eminently a US invention.

The UK has little to gain in return for allowing greater US access to Heathrow, says Michael Skapinker

When George Bernard Shaw described the UK and the US as two countries divided by a common language, it was English he had in mind rather than the language of free trade.

But a striking feature of last week's collapse of US-UK air talks is the level of mutual incomprehension that arises when the two countries talk about how to liberalise aviation. Each sees itself as a champion of free trade, confronted by a nation obstinately refusing to open its aviation market.

Last week's talks in Washington collapsed when the US rejected as inadequate a UK offer to allow some increase in US carriers' access to London's Heathrow airport. Britain, on the other hand, complained the US had refused UK airlines the right to bid freely for contracts to transport US civil servants. US airlines can bid freely for UK government contracts.

The US is desperate to win greater access to Heathrow for its carriers. Heathrow is the busiest international air hub, providing transfers between flights to travellers from all over the world. The US is convinced the UK is refusing fur-

Hidden behind a screen of stability

The cover-up of Daiwa's losses reflects a wider problem in Japan's business culture, says Gerard Baker

relaxed approach to disclosure of the problems.

Japanese government officials now say that Daiwa's management has been disguising losses for years – not just at the bank's main New York branch but also similar, though smaller, losses at another Daiwa office in New York.

Even when Daiwa's top management learned of the fraud, they sat on it. The bank's former president, Mr Akira Fujita, who resigned last week, received notification of the losses on July 24. But it was not until September 18 – eight weeks later – that he informed the US Federal Reserve, the regulator principally responsible for supervising the bank's New York operations. In US (though not in Japanese) law such a delay could be considered a criminal offence.

And last week Mr Iguchi, the trader at the centre of the storm, alleged that the bank's senior management had actually asked him to continue the deception after he had told them about the losses. Initially, the reaction of Japan's ministry of finance was cutting. It said Daiwa's failure to report the loss for an eight-week period was deeply disturbing. The bank had failed to abide by firm guidelines on disclosure. "Daiwa is going to face severe punishment," one zealous official said.

But it soon became clear that Daiwa's coyness about the losses was almost matched by the finance ministry's. The official responsible for banking supervision at the ministry was told of the losses in early August. His reaction? Rather than telling the US authorities immediately, he instructed Daiwa to investigate and then report back with the details. He did not bother to chase up Daiwa executives in the next six weeks.

Daiwa raised funds during this period. According to one Japanese banker, it dealt with Daiwa was more active than ever before. This has raised suspicions among international bankers that Daiwa was using the six-week breathing space to raise money because it anticipated that the cost would rise once the New York losses were made public, although Daiwa denies any deliberate attempt to gain an advantage from its inside knowledge.

US officials are said to be shocked by the ministry's inaction. But that same lack of openness is typical of Japan's entire financial system.

For example, the Japanese banks refused for years to admit the scale of their losses on property loans made in the late 1980s. By the early 1990s many loans had turned sour, with a consequent mountain of bad loans for the banks.

It was only in 1993 that they were first required to disclose a small proportion of their non-performing assets. Even now, the ministry officially estimates that bad loans total

about Y40,000bn (£253.8bn) – about half the level most independent analysts believe it to be.

It also remains the case that banks can hide their problems in affiliated companies. Under arcane accounting rules, banks do not have to declare any results for many of their affiliates, which consequently provide them with the perfect vehicle for concealment.

As one analyst in Tokyo puts it: "If people stopped lending to Japanese banks, one third of the country's financial system would disappear in a week. The authorities can no longer do it their way. They can no longer pretend it's their own little market."



ther access as a means of protecting the interests of British Airways.

The UK, on the other hand, sees the vast US domestic market as being closed to its airlines. US carriers, in the UK's view, can use their connections from hundreds of American towns and cities to bring passengers to larger airports, from where they can be transported across the Atlantic – an opportunity denied to UK carriers which are only permitted to fly to the larger US "gateway" cities.

Even if they were permitted to challenge US airlines on the smaller routes, UK carriers would find the cost of setting up American networks prohibitive. The UK's long-term aim is for its airlines to have the right to buy bigger stakes in US carriers. US law restricts foreign ownership of US airlines to 25 per cent, whereas European Union regulations allow non-EU ownership of up to 50 per cent.

At the root of US dissatisfaction is the bilateral aviation agreement known as Bermuda II. In predecessor, Bermuda I, was agreed in 1946

and named after the island on which it was negotiated. In 1976, the UK renounced it on the grounds that it gave US carriers too big a share of the transatlantic market.

Bermuda II, agreed a year later, was recently described by Mr Gerald Greenwald, chairman of United Airlines, as "the worst mistake in

the history of US international aviation negotiations".

Mr Greenwald believes the basic US move was agreeing to surrender rights to carry traffic beyond London. He told a US Senate committee earlier this year that before Bermuda II, US airlines could carry local traffic between London and 40 further points. Today, US airlines can fly onward from London to 11 cities. BA, he said, has used its rights to develop a huge international network, establishing a hub at Heathrow which US carriers are powerless to challenge.

Mr Greenwald is undoubtedly right in seeing restrictions at Heathrow as being used to underpin BA's power, although the airline's improvements in service, efficiency and marketing since its privatisation in 1987 have played an important role too.

The UK government argues, however, that opportunities for opening Heathrow to other airlines are limited. The airport is severely congested, with few new arrival and departure slots even for UK airlines, such as Virgin Atlantic. A proposed fifth Heathrow terminal would not improve the situation substantially as it would merely allow airlines to fly more passengers to and from the airport on each aircraft. Only a small increase in the actual number of flights is envisaged.

Sir George Young, UK transport secretary, said last month that even if there were room to increase US

access to Heathrow, the UK would expect something in return. He said: "Everyone has to realise that this is a two-way street."

A difficulty for the US is that, for the moment, the UK is reasonably happy with the status quo. Although it would like greater access to US government business for UK carriers, it has not recently pressed for foreigners to be allowed to own larger shares in US airlines. USAir, which owns 24.6 per cent of USAir, is not at present asking for more. Indeed, USAir has had severe financial difficulties and is in talks with United and American Airlines about a possible takeover. This could have implications for the size of BA's stake. Until USAir's status is resolved, there will be little incentive for the UK to trade increased Heathrow access for greater ownership of US airlines.

Several US airlines recognise that, until then, the UK's limited offer of additional flights to Heathrow will be the best available. Earlier this year, Mr Robert Crandall, American's chairman, was asked why the UK should concede much to the US when it wanted so little in return. He replied: "You've understood the situation exactly."

Financial Times

100 years ago

Ultimatum to Venezuela

The friction that has long been noticeable between Great Britain and Venezuela has at length culminated in an ultimatum from Lord Salisbury to President Crespo. We want redress for the wrongful arrest of British police by the Venezuelan officials, and after that we want the miserable boundary question settled and done with.

As yet the Venezuelan President has not seen fit to reply, but it is to be hoped that he will not put us to the trouble of calling an ultimatum.

Lord Salisbury has been doing his best to get the British government to accept the ultimatum.

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He has been

Dollar at lowest level in nearly three months

World markets slip as political fears hit Europe

By Philip Coggan and
Gill Gawthorpe in London

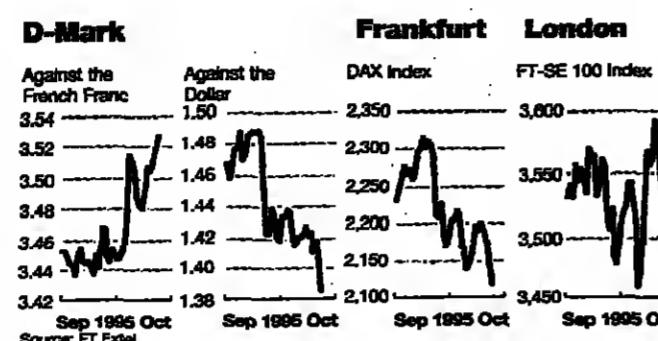
Stock markets fell round the world yesterday, as political concerns in Italy and France caused investors to flock into the perceived safe havens of the D-Mark and the Swiss franc.

The dollar slipped to its lowest level in nearly three months.

The focus of events was in Europe, particularly Italy, where concern that a no-confidence vote could unseat the prime minister, Mr Lamberto Dini, and force early elections, prompted a flight out of the lira. The lira closed in London at £1.167, from £1.145, against the D-Mark.

The French franc fell after a report that President Jacques Chirac might face judicial investigation. It was supported, however, by firm short-term interest rates, with three month rates rising nearly half a percentage point to 7½ per cent. The franc closed in London at FFr3.527 against the D-Mark, from FFr3.518.

The strength of the D-Mark caused the dollar to drop in London to DM1.3803, before a partial recovery. It closed at DM1.3851. Against the yen it closed at Y99.655, from Y100.056. European



stock markets retreated in the face of the currency moves. Shares in hard currency countries, such as Germany and Switzerland, were dragged lower by concern about the effect of the stronger exchange rate on export earnings. In Frankfurt, the DAX index closed around 1.5 per cent lower in after-hours trading, while in Zurich, the SMI index closed 2.5 per cent lower.

In France and Italy, shares were hit by the same political concerns affecting the franc and the lira. In Paris, the CAC-40 index fell 1.1 per cent while in Milan the Mibet stock index dropped 1.8 per cent.

These declines affected investor sentiment in the rest of

Europe. Among worst stock market performers were Madrid, which dropped 2.1 per cent, and Helsinki, which fell 4.2 per cent. In London, the FT-SE 100 index closed 1.9 down at 3,531.5, having been 40 points lower at lunchtime.

The Dow Jones Industrial Average was 23 points down at 2pm New York time and the Toronto stock market, hit by concerns about a potential pro-separatist vote in Quebec, was 24 per cent lower in the early afternoon.

Paris judge to rule on renting of Chirac's flat, Page 3; Forex surge casts maturing market, Page 6; Currencies, London stocks and world stocks, Second section

OECD lowers its forecast for Japanese growth to 0.3%

By William Dawkins in Tokyo

The Organisation for Economic Co-operation and Development yesterday lowered its forecast for Japanese growth in 1995 by a full percentage point to 0.3 per cent in the expectation that domestic demand would remain weak.

It was the second reduction this year after the Paris-based organisation in May almost halved its original 2.5 per cent growth forecast last December to 1.3 per cent. The OECD also cut its growth forecast for 1996 to 1.8 per cent from 2.3 per cent.

The reduction follows a similar recent downgrading in Japanese growth forecasts by the International Monetary Fund and other international bodies. Mr Kuni-haru Shigehara, the OECD's chief economist, said the downgrades

were due to the yen's strength and continued weak consumer demand.

OECD officials in Paris denied that the recent banking crisis had affected the forecast, since demand for credit has been subdued. They also noted that the revision of the 1996 forecast reflected a delayed recovery, rather than a radical shift in the overall pattern of growth.

Mr Shigehara said recent interest rate cuts and the government's fiscal Y14,220bn (\$137bn) pump-priming package would help the economy.

Meanwhile, Mr Yasuo Matsushita, governor of the Bank of Japan, said some of the gloom surrounding Japan's economic outlook had lifted. "The pessimism... which prevailed in the past has been dwindling," he told

a quarterly meeting of the central bank's branch managers, at which the bank gathers intelligence on the regional economy.

Low interest rates, increased government spending because of last month's fiscal package and the stabilisation of the yen against the dollar were the main favourable factors, said Mr Matsushita.

Earlier, the BoJ's quarterly economic outlook predicted that investment in housing, down since the middle of last year, would pick up during the three months to December.

Private spending would be backed by a rise in industrial production, leading to more overtime. But the report warned that companies would continue to cut costs and jobs, putting a brake on consumption growth.

Book revelations anger EU

Continued from Page 1

written rebuke from Mr Jacques Santer, Commission president, for earning money for writing syndicated articles for Danish publications.

But an EU official admitted there was little action that Mr Santer could take against her for writing the book. "The role of the president vis à vis a commis-

sioner is a weak one," he said. All the commissioners are vetted by the parliament as a group.

He suggested that the book would damage her reputation. "Is this the way to show you up to the job? She could have earned respect for saying to hell with protocol if her intention was to make revelations that would shake the house a bit. But this is stupid."

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INTERNATIONAL COMPANIES AND FINANCE

Dasa plans for survival in face of low dollar rate

By Wolfgang Münchau
in Munich

Mr Manfred Bischoff, Dasa chief executive, said the cost-cutting programme announced yesterday was designed to secure the company's survival in the face of a permanently low dollar exchange rate.

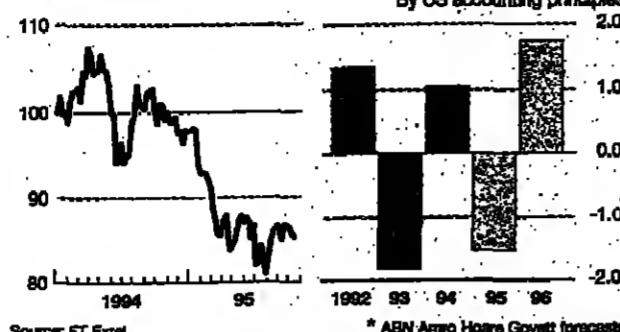
He called on the German government to step up technology and research programmes, which would create a knock-on effect for Dasa.

"We do not ask for subsidies, but there is little point in competing in world markets if we do not have the same opportunities as the strongest competitor," he said in a reference to US groups and the subsidies they receive from the US government.

Mr Bischoff also detailed the envisaged job reductions, which are subject to negotiations with employee representatives.

Daimler-Benz

Share price relative to the DAX Index



Source: FT Estat

Job cuts at existing operations and plant closures add up to about 5,000 for the period 1996-98, plus an additional 3,000 staff from a previous restructuring.

The future of Fokker, Dasa's Dutch aircraft subsidiary, creates friction in relations between the two countries. In

Germany, there is a feeling that Dasa overstretches its domestic restructuring to keep the loss-making Dutch company afloat. This has been denied by Dasa's and Fokker's management.

Editorial comment, Page 17;
Lex, Page 18

A strike at Daimler-Benz Aerospace could not be ruled out, Mr Heinz Hawreluk, an official of the IG Metall union representing Dasa's workers' council on its supervisory board warned yesterday. AFX News reports from Munich. Mr Hawreluk said the union would "use all possible measures allowed it by law" to convince Dasa management to change its plan to cut up to 12,000 jobs in Germany.

Mr Hawreluk said the difference between the number of job cuts given by the union and the almost 8,800 job cuts proposed by the company was due to a different time frame in which the job cuts would be carried out.

The union included almost 2,000 jobs already cut under an restructuring programme, as well as a further 1,000 jobs which may be lost if Dasa sells its Motoren- und Turbinen-Union subsidiary. The management counted only the jobs that would be cut between 1996 and 1998.

Mr Hawreluk also said the union and workers' council would propose on Thursday a plan which would call on the management to reduce "unrealistically high profit expectations"; to stretch the restructuring programme from three years to a "much longer period"; and to place greater emphasis on improving aircraft and aerospace manufacturing rather than simply reducing labour costs.



Pause for thought: Mrs Ingrid Lüllmann, head of the Dasa factory committee, at yesterday's news conference in Munich

Picture: Reuters

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Norsk Hydro posts strong advance at nine months

By Christopher Brown-Humes
in Stockholm

Norsk Hydro, Norway's biggest quoted company, yesterday announced a doubling of net income to Nkr5.77bn (\$935m) at the nine-month stage, after an unexpectedly strong third quarter when profits jumped from Nkr1.1bn to Nkr1.6bn.

Volumes and margins in the agricultural unit exceeded expectations and the group benefited from higher aluminium, magnesium and petrochemical prices. The oil and

gas unit suffered from weaker prices, but this was offset by increased production and lower operating costs.

Analysts said the third-quarter figures showed strength in what is traditionally the group's weakest period, but its shares fell Nkr6.5 to Nkr25.5 on fears that it had peaked in the current cycle.

Mr Bjorn Morstad, chief equity analyst at Fibab Nordic Securities in Oslo, said: "This wasn't just a cyclical blip; it shows the whole quality of the company's earnings is better

than expected, which bodes well for 1996 and 1997."

Third-quarter operating profits add up to about 5,000 for the period 1996-98, plus an additional 3,000 staff from a previous restructuring.

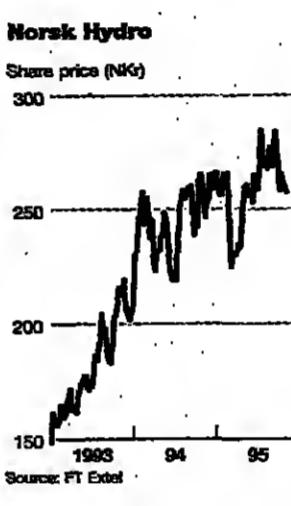
The future of Fokker, Dasa's Dutch aircraft subsidiary, creates friction in relations between the two countries. In

oil and gas lifted operating income from Nkr724m to Nkr855m in the quarter, with a 14 per cent rise in production to 2.9 tonnes of oil equivalent offsetting a 10 per cent fall in kroner oil prices. However, income over the nine months fell from Nkr2.42bn to Nkr2.18bn after a Nkr755m charge to cover lower estimated production from the Lille-Frigg field in the North Sea.

Light metals and petrochemicals also increased third-quarter profits, but the company

said prices, which have risen strongly over the past year, were showing signs of weakening in both segments.

"Growth in aluminium demand has slowed. This in turn slowed the reduction of aluminium inventories and weakened prices towards the end of the third quarter," the company said. It added that prices for PVC and vinyl-chloride monomer (a raw material for PVC) had fallen in the US and Asia in the third quarter, leading to higher PVC imports into Europe.



Warner Music casualty joins PolyGram

By Alice Rawsthorn

Mr Danny Goldberg, one of the casualties of the recent senior management turn-over at Warner Music, is joining PolyGram, the world's largest music group, as president of Mercury, the New York-based record label.

Mercury is one of the largest and longest-established pop and rock labels within PolyGram, which also owns Island Records, A&M and Tamla Motown. Its roster of artists includes golden oldies, Sarah Vaughan and Diana Washington, as well as the contemporary rock groups, Def Leppard and Bon Jovi.

However, Mercury has been

less successful at nurturing new talent than other PolyGram labels. Mr Goldberg, 45, has been hired with a brief to rejuvenate its repertoire by signing new acts. PolyGram earlier this month appointed Mr Andre Harrel, 35, to revitalise Tamla Motown.

Mr Goldberg has been courted by a number of record companies since he left Warner Music in August. His resignation followed an exodus of senior Warner executives over the past year including Mr Robert Morgado, who was replaced as chairman by Mr Michael Fuchs, head of Home Box Office, Time Warner's successful pay-TV business.

After beginning his career as

a music journalist, Mr Goldberg founded Gold Mountain Entertainment, a music management company which worked with a number of successful US acts including Nirvana and Sonic Youth.

He joined Atlantic Records, another Warner label, in 1992 becoming president in 1994. He signed several young artists to Atlantic, such as Hootie and the Blowfish and Stone Temple Pilots, before taking charge of Warner Bros Records this January.

Mr Goldberg replaces Mr Ed Eckstine, 41, as president of Mercury. Mr Eckstine is starting a new record label which will be financed and distributed by PolyGram.



Jon Bon Jovi: On Warner's Mercury label roster of artists

Banco Popular shares slip on merger talk

By Tom Burns in Madrid

Banco Popular, the smallest of Spain's big banks but consistently the most profitable, yesterday faced an unusual drop in its share price as the company dampened rumours it was poised to bid for control of Argentaria, the large and partially privatised banking group.

In spite of a low trading volume, Popular, which has a strong foreign institutional shareholder base, lost more than 4 per cent of its share price, falling from Pta18,700 to Pta17,920 after Cinco Dias, the Madrid newspaper, headlined comments by Mr Luis Valls, the bank chairman, that the group was "poised to make a merger leap".

"If the authorities ask us to take over a great institution we shall do so," he was quoted as saying.

Mr Valls' remarks were seen by analysts as indicating a

shift in Popular's traditional strategy of focusing on profitability and avoiding the growth through acquisition practices of rival big banks.

Popular, however, denied any strategic changes. "We have never ruled out mergers but we are not announcing any bids so we don't understand the fuss. Our philosophy remains the same," it said.

The share price of Argentaria, which is 51 per cent owned by the state and is a candidate for further privatisation, also fell by more than 4 per cent yesterday.

The prospect of mergers in the domestic banking sector was set off at the end of last week by Mr Carlos Solchaga, economy and finance minister from 1985-1993. At a banking conference in Madrid, Mr Solchaga said the merger process was "not yet over" and that the current line-up of Spain's leading financial institutions was "unstable".

Eurotunnel exposure at BNP put at FF2.41bn

Banque Nationale de Paris, the French bank, has at least as much exposure as its state-owned rival Crédit Lyonnais to Eurotunnel, operator of the cross-Channel rail link, according to a report yesterday, writes Andrew Jack in Paris.

Agence France Presse reported that BNP had FF2.1bn (\$490m) in total exposure, including FF2.15bn in junior debt - and Midland, with FF2.07bn in total loans including FF1.75bn in junior debt. None of the banks denied the figures yesterday.

The other two leading Eurotunnel banks are the UK's National Westminster - with FF2.17bn in loans, of which FF1.85bn is junior - and Midland, with FF2.07bn in total loans including FF1.75bn in junior debt. None of the banks denied the figures yesterday.

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CONTRACTS & TENDERS

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and Courier Service

The Inland Revenue is looking for a contractor to provide sorting, distribution and carriage of its internal post, management circulars, forms, stationery and other consumables to and from its 1100 offices, from some of its suppliers and to some of its major customers.

Expressions of interest in this contract are invited either on a sole provider basis, or on the basis of a partnership with the current in-house provider of sorting and information distribution services at Kew, Surrey.

The contract will run for 3 years initially with the possibility of extension to a maximum of 7 years in 2 year tranches.

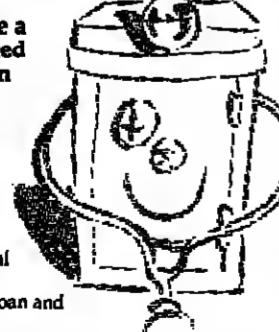
Interested parties who can clearly demonstrate a successful track record may be invited to tender in accordance with the contract notice which is being placed in the Official Journal of the European Communities.

For a copy of the contract notice, please phone
David Mutton
on 0171 438 6542. Information required by the contract
notice must be returned by 17 November 1995.

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INTERNATIONAL COMPANIES AND FINANCE

Big US oil groups exceed expectations for quarter

By Christopher Parkes
in Los Angeles

Third-quarter results from leading US oil groups yesterday comfortably exceeded the most optimistic analysts' forecasts.

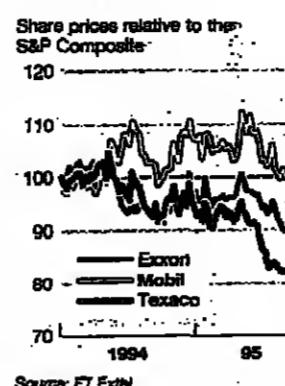
Exxon's net earnings jumped 30 per cent to a record \$1.5bn for the traditionally quiet summer season. Mobil was 41 per cent ahead at the operating level, while net income was up more than 50 per cent at \$785m before adjustment for special charges, write-downs and a one-off boost from a favourable court settlement.

Mr Laurence Fuller, Amoco chairman, said the group's 35 per cent advance in consolidated earnings to \$595m, or \$1.21 a share, was a strong performance in the face of lower energy prices.

Shell Oil, the US unit of the Royal Dutch/Shell group which is collaborating with Amoco in a cost-sharing agreement involving certain production and exploration assets in Texas and New Mexico, hailed a 38 per cent increase in fully-adjusted net earnings to \$431m as the best third-quarter result in eight years.

Even Arco, which some analysts had expected to suffer from weaker chemicals markets, exceeded forecasts with net earnings of \$815m, or \$1.93 a share. Although down on the

US oil stocks



Source: FT Estm

comparable quarter of last year - when profits rose to \$435m, or \$2.67 a share, due to extraordinary income of \$200m - Arco's nine-month earnings of \$1bn against \$800m last time were the highest in five years.

Texaco, which has recently completed the sale of its interests in chemicals, reported more modest progress, with total net income up from \$281m to \$288m.

One important factor behind the sector's strong results appeared to be a better-than-expected performance from the group's chemicals operations, which many analysts had expected to dip under the influence of the traditional summer lull in Europe. However, some companies reported weakening prices for certain commodity

chemicals as the quarter progressed, and all noted weaker worldwide crude prices.

Mr Lee Raymond, Exxon chairman, said operating performance improved in all business sectors. Refining and marketing earnings rose because of better volume sales of petroleum products and higher margins in the US and Europe. Weaker prices for crude and natural gas in the US and Canada were largely offset by higher volumes and better prices in Europe.

Profits from chemicals were more than double those in the comparable 1994 period, "although product prices weakened as the quarter progressed", Mr Raymond said. Exxon's net income per share was \$1.20, against 92 cents last time.

Mr Lucio Noto, Mobil chairman, said the third-quarter improvement, which raised earnings per share to an estimated \$1.95 compared with \$1.23 last year, stemmed from "significantly higher" profits from downstream petroleum and chemicals.

Although industry refining margins narrowed, Mobil's earnings from domestic and foreign marketing and refining increased "substantially", he added.

Mobil, which is benefiting from continued cost-cutting, said a seasonal lift in US demand for petrol also helped.

AMERICAS NEWS DIGEST

Surprise turnaround at Data General

Data General unexpectedly turned losses into a modest profit in its fourth fiscal quarter, helping share in the US computer maker to rise 10 per cent to \$1.24 in mid-session yesterday. Net income for the quarter ended September 30 was \$1.5m, or 4 cents a share, compared with a net loss of \$6.2m, or 17 cents, a year earlier. Revenues for the quarter increased 7 per cent to \$312.6m.

Data General also announced a new range of products based on Intel technology, a switch from the Motorola microprocessors that the company has used to date. Intel will supply ready-made circuit boards for the new computers.

For its full year, Data General reported a net loss of \$46.7m, or \$1.23 a share. The results included a restructuring charge of \$43m which was offset by a gain of \$44.5m from the settlement of a software copyright and trade secret lawsuit against Northrop Grumman. In fiscal 1994, the company reported a net loss of \$37.7m, or \$2.45, including a restructuring charge of \$35m. Revenues for fiscal 1995 were \$1.16bn, against \$1.12bn previously.

Louise Kehoe, San Francisco

Inco bounces back to black

Inco of Canada, the world's biggest nickel producer, saw a turnaround in third-quarter results because of higher metal prices and shipments and a better performance in its alloys and engineered products businesses. Net profit was US\$43.8m, or 33 cents a share, against a loss of \$1m, or 2 cents, a year earlier, on revenues of \$830m against \$803m.

Nickel-moth earnings were \$166.2m, or \$1.37, against a loss of \$75.8m or 63 cents, on revenues of US\$2.56bn against US\$1.72bn. The third quarter is normally the lowest for production because of holidays and maintenance shutdowns in the Canadian mines, but this year results were also affected by start-up and equipment problems at 58 per cent-owned P. T. International Nickel Indonesia.

At September 30, Inco's total debt was US\$966m against \$923m at December 31 1994, and the debt to equity ratio was 33.57.

Robert Gibbons, Montreal

GE appoints vice-chairman

General Electric, the US industrial conglomerate, has appointed as vice-chairman Mr John Opie, the head of its lighting business. Mr Opie will join the three-man corporate executive office at the head of the company, along with Mr Jack Welch, chairman, and Mr Paolo Fresco, also vice-chairman. He replaces Mr Frank Doyle, who has reached retirement age.

Mr Opie has been with GE for 34 years. He has been in charge of the lighting division since 1986, and is credited with expanding its US base into international markets, partly through acquisitions such as Tungsram in Hungary and the Thorn lighting business in the UK.

The move is likely to focus interest on the succession to Mr Welch, 59, who had heart surgery earlier this year. Mr Welch has brushed off suggestions of retirement, which does not fall due until he is 65. Mr Opie, 57, is not seen as a likely successor because of his age.

Tony Jackson, New York

Rhône-Poulenc Rorer lifts sales

Rhône-Poulenc Rorer, the US-based pharmaceuticals arm of the French chemicals group, registered a 7 per cent increase in revenues in the latest quarter, to \$1.2bn, largely on the back of an 8.5 per cent advance in US sales.

Separately, Mr Jean-René Fourtan, chairman of Rhône-Poulenc, said the group had no plans to buy the 32 per cent of the company it did not already own.

With its research and development spending rising 24 per cent to \$190m in the latest quarter, Rhône-Poulenc Rorer's operating income remained virtually flat at \$182m.

Higher interest costs were almost exactly matched by a lower tax charge.

Net income slipped slightly to \$107m from a year earlier, while earnings per share remained flat at 80 cents.

Richard Waters, New York

Genentech posts 20% increase

Genentech, the US biotechnology company, recorded a 20 per cent increase in after-tax profits to \$40m in the third quarter, on a 16 per cent rise in revenues to \$224m. Earnings per share were 33 cents, up from 28 cents.

Sales of Activase, a cardiovascular drug, rose 12 per cent to \$73m, while revenues from Pulmoxyme, a treatment for cystic fibrosis in Europe, climbed 42 per cent to \$30m after receiving regulatory approval in the US.

International business traffic was up 54 per cent. Mr Maine said, three times the industry average. Revenue from data transmission rose 34 per cent.

The gap of 6 percentage points between traffic and revenue growth was attributed mainly to volume discounts and promotions associated with the Friends and Family programme, a weapon in MCI's fight for market share. Mr Maine expects the gap to narrow in the final quarter as a result of price rises.

"The old game of grabbing every half-point of share from our competitors is diminishing in importance," he said. The market was now driven more by new applications and changes in consumer behaviour, such as credit card payments by phone.

International business traffic was up 54 per cent. Mr Maine said, three times the industry average. Revenue from data transmission rose 34 per cent.

The Concert joint venture with BT in international business telephony was mainly responsible for an underlying \$21m share in losses by affiliates.

Mr Maine warned that the fourth quarter would include the Nationwide Cellular acquisition for the first time and would bear the cost of expanding the group's cellular network.

"It's been a very good year for the company, and we're looking for a strong close in the fourth quarter."

Richard Waters

Solid gains at Kimberly-Clark

Price increases on its paper products, volume growth and a one-off gain from the sale of a business enabled Kimberly-Clark to report a 48 per cent increase in earnings per share in the latest quarter, to \$1.30.

Net income rose to \$209m, on sales of \$2.2bn, from \$1.42m on sales of \$1.8bn the year before. Half the sales growth came from volume increases, with the rest stemming from higher selling prices for tissue, pulp and newsprint. This helped lift the operating profit margin by more than two percentage points, to 12.7 per cent. The sale of an 80 per cent interest in an airline business contributed \$40m, or 25 cents a share, to the latest results. Kimberly-Clark added that it expected to take a one-off charge on the completion of its merger with Scott Paper in the current quarter.

Richard Waters

Revenues up by 13% at MCI

By Tony Jackson in New York

MCI, the second-longest US long-distance telephone company, maintained its reputation for rapid growth with a 13 per cent jump in revenues to \$275m or \$1.77 a share, in the third quarter, but said prices of polyethylene, one of its main products, had weakened since the second quarter. At the same time, higher raw material prices reduced margins in specialty chemicals.

The apparent peaking of the cycle in petrochemicals was also stressed by Lyondell, a large producer of bulk petrochemicals, and by several US oil companies reporting yesterday.

Lyondell, which increased its third-quarter earnings by 51 per cent year-on-year to \$100m, said petrochemical earnings were down from the strong levels of the second quarter because of lower margins and volumes, and warned of continuing

market weakness in the fourth quarter.

For the first time, Union Carbide divided its results under two headings: basic chemicals and polymers and specialties and intermediates.

It said that since specialties and intermediates, which comprised 69 per cent of group sales and 62 per cent of operating profit in the first three months, were less cyclical than commodity chemicals, splitting them off would give a clearer picture of the effects of the chemicals cycle.

In the third quarter, sales of basic chemicals rose 53 per cent to \$565m and operating profits increased from \$2m to \$121m. The company said weakness in polyethylene was more than offset by strong prices for other main commodity products, ethylene oxide and ethylene glycol.

While sales of specialty chemicals climbed 10 per cent

in the quarter to \$1.01bn, profits fell 21 per cent to \$115m.

The company said this was due to higher prices for raw materials, including ethylene oxide.

For the first nine months of the year, basic chemicals made profits of \$329m, on sales up 61 per cent at \$1.5bn, while specialties increased profits by 13 per cent to \$323m, on sales up 16 per cent at \$2.7bn.

Historic data published yesterday showed that in the four years 1991-94, basic chemicals made a cumulative loss of \$390m, while specialties made a \$1.6bn profit.

Profits from the disposal of the remaining interest in UCAR, the company's joint venture in graphite electrodes, added 63 cents a share to earnings, partly offset by a charge of 31 cents a share for post-employment benefits.

Excluding those factors, earnings were up 154 per cent

at \$1.45 a share.

The net result was a loss of \$240m for the quarter, or 35 cents a share.

Call traffic was up 19 per cent, the highest increase for four years. Mr Douglas Maine, chief financial officer, said this was well ahead of growth in the market overall.

The gap of 6 percentage points between traffic and revenue growth was attributed mainly to volume discounts and promotions associated with the Friends and Family programme, a weapon in MCI's fight for market share. Mr Maine expects the gap to narrow in the final quarter as a result of price rises.

"The old game of grabbing

every half-point of share from our competitors is diminishing in importance," he said. The market was now driven more

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Nature's own ingenious building material – millimeter long wood fibers from our Swedish forests – provides the platform on which SCA's international USD 10 billion business has been built.

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equal proportions of fresh and recycled fiber in our products.

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SCA's activities are conducted through three separate business areas:
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AMGOLD

Abridged Interim results and dividend announcement

for the six months ended 30 September 1995 (unaudited)

(R million)	Six months ended 30.9.95	Six months ended 30.9.94	Year ended 31.3.95
Investment income	156	202	346
Interest earned	31	23	46
Surplus on realisation of investments	107	109	207
	294	334	599
Administration expenses	4	5	7
Cost of prospecting	11	12	26
Grants - educational and welfare	5	5	7
	20	22	40
Net income before taxation	274	312	559
Taxation	9	2	11
Attributable earnings	265	310	548
Retained earnings of associated companies	(1)	(2)	-
Total earnings	264	308	548
Earnings per share - cents including surplus on realisation of investments	1 091	1 278	2 269
Excluding surplus on realisation of investments	649	823	1 413
Dividends per share - cents	640	800	1 400

DIVIDEND: Dividend No. 95 of 640 cents per share has been declared payable on Friday, 15 December 1995 to shareholders registered at the close of business on Friday, 10 November 1995. The register of members will be closed from Saturday, 11 November 1995 to Saturday, 18 November 1995. The full conditions relating to the dividend may be inspected at the Head Office and London Office of the company and at the offices of its transfer secretaries.

Copies of the full interim results are available from the Johannesburg and London Offices.

Head Office
44 Main Street
Johannesburg 2001

23 October 1995

London Office
19 Charterhouse Street
London EC1N 6QP



APPOINTMENTS

INVESTMENT BANKING

This leading international financial company requires an individual who combines Technical (mobile telephone) and analytical skills to be responsible for the analysis of accounting data and market information relating to the mobile industry, with emphasis on mobile telephony and valuation analysis for telecoms companies worldwide. The applicant must have sound understanding of European analysis tools and techniques, industry and market analysis, corporate strategy formulation and have corporate contacts within telecommunications companies, knowledge of telecoms market issues and be familiar with analysis of competitive industry coverage, transactions, valuations and corporate structures. Salary negotiable. Applicants aged 30-40, educated to Masters degree or equivalent, fluent in French and German in addition to English, with minimum 5 years' experience in the financial markets and preferably a management background should apply. In strict confidence, enclosing full CV to Box A5777, Financial Times, One Southwark Bridge, London SE1 9HL.

LEGAL NOTICES

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATORS

Name of company: Easets (Manufield) Limited
Registration number: 009481
Trading name(s): Easets (Manufield) Limited, Manufacturer of business clothing manufacturer, Trade classification: 06, Date of appointment of administrators: 12 October 1995, Name of person appointing administrators: Receiver: Clegg Brooks Financial Limited, A M MENZIES AND H TOMBS Joint Administrators Receivers Office holder numbers: 0053 and 7830 Address: 1000 Rotherwick Road, Birmingham City Town 7 HILL Street, Birmingham B5 4UZ

By Daniel Dombey
in Mexico City

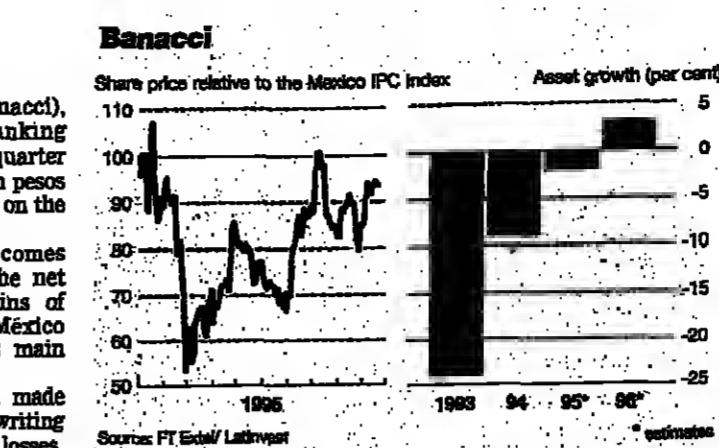
Banamex-Accival (Banacci), Mexico's largest banking group, reported third-quarter operating profits of 724m pesos (\$108.4m), up 12 per cent on the previous quarter.

The improvement comes despite a decline in the net interest income margins of Banco Nacional de México (Banamex), the group's main subsidiary.

The bank more than made up for the shortfall by writing back provisions for loan losses, although it stressed it would continue its conservative approach.

Banamex also helped its bottom line by generating 711m pesos in foreign exchange and securities trading income. However, the bank said the figure was halved after tax.

Analysts had previously



Source: FT Estadística

Source: FT Estadística

been concerned about the bank's reliance on volatile trading income for a large share of its profits.

Net income for Banamex

increased 4 per cent to 529

pesos from the previous quarter, while the rest of the

group's subsidiaries saw a 3

per cent fall in total net

income to 116m pesos. Banamex's net interest margins

declined more than 3 per cent

from the second quarter to 5.24

per cent, generating 1.97bn

pesos of net interest income, as

interest rates fell in the three

months to September and an

emergency debtor's plan backed by the banks and the government kept rates down on many rescheduled loans.

The bank said the debtors' plan, known as the ADE, cost 30m pesos in forgone interest payments for September. It may cost the bank about 300m pesos for the fourth quarter.

The main aim of the scheme is to improve asset quality by making loans easier to pay.

The bank stressed that the quarterly rate of growth of past due loans had slowed, from 35 per cent in the second quarter to 18 per cent in the third.

Net past due loans represented 6.22 per cent of the bank's total net loan portfolio at the end of the quarter.

Unrealised gains from securities trading of 454m pesos helped the group's net income to 1.18bn pesos, up 27 per cent from the previous quarter.

President of Quaker Oats resigns from board

By Richard Waters
in New York

The second-highest ranking executive at Quaker Oats resigned yesterday in an apparent response to the company's disastrous \$1.7m liquidation last year of Snapple Beverage.

Mr Philip Marinetti, president and chief operating officer since 1988, had previously been regarded as a likely successor to Mr William Smithburg, the company's chairman.

While not directly explaining Mr Marinetti's resignation, Mr Smithburg said that over the past year the company had acted to "remove management layers, shorten times of decision making and bring senior level focus to bear upon major challenges".

Mr Smithburg added that all the company's businesses would now receive his personal attention, "including the important Snapple acquisition".

Since Quaker Oats agreed to buy Snapple late last year, the beverage company's sales have stalled and its profits have shrunk.

Though probably the most successful of the new wave of health-conscious, additive-free drinks companies, Snapple has suffered in recent months from a new range of competitors, among them Coca-Cola and PepsiCo.

Mr William Leach, an industry analyst at Donaldson Lufkin & Jenrette, said of Mr Marinetti's departure: "I guess he's the fall guy for Snapple. They have to blame somebody and they can't blame the boss."

Yesterday's news added to concerns about Quaker Oats' latest quarterly earnings, which are due to be announced on Thursday. Due largely to the problems at Snapple, the company is likely to report earnings per share of 35 cents, down from 54 cents a share, Mr Leach said.

The departure of Mr Marinetti, 49, does not leave the company with an immediate succession problem. At 56, Mr Smithburg is still some years from retirement.

Marketing costs hurt Nabisco result

By Maggie Urry in New York

Nabisco, the food group 80.5 per cent owned by RJR Nabisco following the flotation of a minority stake in January, blamed price-cutting by rivals and heavy marketing costs for a fall in third-quarter profits.

Mr John Greenbaum, president and chief executive, said the results were "disappointing", and the shares, floated at \$24.50, fell 1% to \$27 in early trading.

Operating income dropped 10 per cent to \$195m, but a lower interest charge and tax rate left net income up from \$85m

to \$71m, before a \$19m extraordinary charge related to the early retirement of debt. Earnings per share fell from 28 cents to 27 cents, or to 20 cents after the extraordinary charge.

Profits from US operations, before goodwill amortisation, fell 10 per cent to \$193m. Nabisco said its Planters nuts and Nabisco biscuit businesses had been hit by aggressive price cuts by competitors. Nabisco had responded with heavy marketing to lift sales.

Procter & Gamble put its Fisher Nut brand up for sale in June. As a result, Nabisco said, Fisher decided "to reduce

prices drastically in order to increase market share in anticipation of selling its business".

The decision in July by United Biscuits of the UK to sell Keebler, its US biscuit business, had resulted in "increasing pricing pressures".

Nabisco's international operations increased operating income from \$52m to \$54m.

• American Brands, which makes Benson & Hedges and Silk Cut cigarettes, and Jim Beam bourbon and Whyte & Mackay scotch whisky, increased third-quarter fully

diluted earnings per share from ongoing operations from

52 cents to 71 cents. Fully

diluted earnings per share rose from 73 cents to 80 cents.

Mr Thomas Hays, chairman and chief executive, said 1995 earnings per share from ongoing operations, which excludes profits from businesses sold and gains on disposals, would rise at least 17 per cent from the \$2.57 per fully-diluted share earned in 1994.

The group has sold busi-

nesses which three years ago accounted for 42 per cent of operating income. Proceeds of \$2.5bn have been used to buy back shares and repay borrowings, lifting earnings per share.

soared since hitting a low of 80 cents a tonne in early 1994.

Although many North American newspapers have responded by cutting paper consumption, the market remains firm.

Groundwood papers, used for magazines and catalogues, have also escaped the downturn which has hit many other paper grades in recent months.

Fletcher Challenge has sought to placate customers who have been hit by a series of price increases - by guaranteeing the new price throughout 1997.

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papers.

Abitibi-Price said the

upswing may continue for

some time, with little extra

newspaper capacity expected to

come on stream in the next few

years.

N American newsprint groups raise prices

By Bernard Simon
in Toronto

Several North American newsprint producers have bucked the recent weakness in paper markets by announcing another price increase.

The rises vary slightly between companies, but in most cases amount to an increase in net prices (including discounts) from US\$760 to between US\$814 and US\$817 a tonne.

The companies, which

include Fletcher Challenge Canada and Stone Container, plan to implement the increases in February 1996.

The announcements coincide with the traditionally busy fourth quarter. However, it is uncertain whether the full

increases will stick.

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INTERNATIONAL COMPANIES AND FINANCE

Surging bonds boost Japan's big four stockbrokers

By Gerard Baker in Tokyo

The gap between Japan's leading securities companies and the rest continues to widen. In the six months to the end of September the big four brokerages - Nomura, Nikko, Daiwa and Yamaichi - all recorded substantially improved profits. But for the middle-tier brokers, the depression that has dogged their performance for the past four years shows no sign of abating. And, despite a small improvement, most of the country's smaller companies also remain mired in the red.

The principal reason for the accentuation in the differences in profitability is diversification. The larger companies, which rely much less on the bread-and-butter business of equity brokerage commissions for their income, have benefited spectacularly from a surging bond market in the last year.

Declines in short-term interest rates and growing evidence of deflation have combined to push bond yields to historic lows. As a result bond prices

have risen sharply, producing big profits for traders.

Between them, the Big Four recorded trading profits of Y121bn (\$1.2bn), four times the figure last year, and more than a fifth of their entire operating revenues. Since the stock market has remained stagnant, the bulk of those gains have come from fixed income trading.

Among the small and medium-sized brokers, only four reported such a high proportion of trading gains in their total revenues.

The strong bond market helped the Big Four to combined operating profits of Y88.6bn, more than three times the level achieved in the same period last year. The middle three companies - the most troubled of the sector - reported a further decline in their combined operating, recurring and after-tax profits. Of the remaining brokers, most reported a slight improvement in their operating performance but all except three continue to lose money.

The small and medium-sized brokers' reliance on equity brokerage commissions again

Japan's securities brokers: 1995-96 interim financial results (Yen)						
	Operating revenues	Change on year (%)	Operating profits 1995	Recurring profits* 1995	Net profits 1995	1994
Daiwa	145.9	+15.2	26.8	7.2	20.2	3.2
Yamaichi	110.8	+10.4	4.7	-8.4	2.4	-6.8
Nikko	130.0	+19.1	25.3	3.1	16.9	2.0
Nomura	202.1	+4.6	31.7	22.4	22.2	10.2
Total Big Four	588.8	+11.4	88.5	24.3	57.8	8.6
Sanyo	18.1	-14.9	-13.9	-14.3	-10.4	-9.5
New Japan	58.4	-12.5	-3.6	-2.3	-1.8	-2.7
Kankaku	28.0	-12.4	-10.4	-9.9	-10.8	-9.7
Total Middle Three	95.4	-13.0	-27.9	-28.4	-28.2	-20.4
Wako	29.0	+3.4	-3.5	-7.2	-5.2	-5.1
Okasan	20.9	+2.0	-2.6	-4.2	-3.2	-4.3
Yamashita	6.6	-6.3	-3.3	-3.2	-2.6	-2.6
Cosmo	13.1	-6.6	-1.5	-3.0	-1.4	-3.1
Daishi	10.8	-7.9	-2.8	-4.0	-2.5	-3.7
Marusen	8.9	+16.0	+0.8	-1.3	-0.8	-0.8
Toyota	10.2	-12.6	-2.1	-2.6	-2.1	-2.2
Kokusai	44.3	+4.3	-1.3	-1.7	-1.4	-2.4
Tokyo	12.8	-2.6	-3.2	-3.0	-3.4	-3.5
Kosei	1.7	-4.0	-0.3	0.1	0.3	0.3
Taiheyo	9.8	-15.5	-2.7	-2.1	-2.6	-1.9
National	8.1	-4.3	-2.1	-3.4	-2.4	-3.7
Marumex	5.3	-11.3	-0.8	-1.4	-0.8	-1.1
Total Others	175.4	-0.8	-20.7	-37.1	-16.7	-39.0
TSE1 brokers	854.5	+6.8	+40.0	-38.2	41.9	-36.6
Source: Companies						

*before extraordinary items and tax

proved costly. Average daily trading value on the Tokyo Stock Exchange in the six-month period was Y313.2bn, a decline of 10 per cent from the

same period a year earlier. All companies except Nikko reported a decline in equity brokerage commissions. Most of the smaller companies

reported falls of more than 15 per cent. The smaller brokerages were especially hard hit by the dearth of trading by individual

investors, who provide the bulk of their commission income. The stock market collapse of the last five years has made small investors wary of equity investment, and despite a 20 per cent recovery in the Nikkei 225 index of leading stocks in the last three months, the cautious Japanese show no signs of returning to the market in large numbers.

Continuing economic weakness produced another sharp fall for all companies in underwriting commissions. But here the Big Four were as hard pressed as the smaller brokers. In the last year deregulation on the Tokyo Stock Exchange has opened up the securities market to the big banks, which are now permitted to compete with the brokers in underwriting. They have made strong progress in the last six months, largely at the stockbrokers' expense.

Most companies continued to

retrench. Aggregate operating expenses at all brokers' current capital strength, however, were still not adjusted to the harsh commercial realities of the 1990s. In the boom years of the late 1980s, trading values on the Tokyo Stock Exchange were three times current levels, equity and bond issuance were expanding rapidly and a heavily regulated market meant that brokers were left unimpeded by competitor financial institutions, and were able to record substantial profits.

Those historic profits continue to underpin the brokers' current capital strength, however. Most companies remain comfortably capitalized, despite four years of big losses.

Kao again registers first-half growth

By William Dawkins in Tokyo

The sales success of a hair tonic helped Kao, Japan's leading household products company, report a rise in interim profits for the 1st half successive year.

Kao, one of the few Japanese companies to have increased its revenues throughout the recession, yesterday unveiled a 4.7 per cent rise in recurring profits - before tax and extraordinary items - to Y26.9bn (\$269m) in the six months to end-September. That implies improved margins, as sales up 3.4 per cent to Y383.5bn over the same period.

On the strength of this, Kao forecasts a 4.3 per cent rise in recurring profits to Y27bn for the full year to next March, on sales up 2.3 per cent to Y670bn.

Within the six-month total, sales of personal care products and cosmetics rose 0.9 per cent to Y115bn. This was helped, said Kao, by strong consumer support for Success Medicated Hair Growth Enhancer essence, launched in March.

The laundry and cleaning products division reported a 5.2 per cent turnover gain to Y134bn. Sales of hygiene products and bath additives rose 1.1 per cent to Y39.7bn, helped by a significant increase in sales of disposable nappies. The chemical products division lifted sales 6.8 per cent to Y43.8bn, reflecting strong industrial demand for Kao's fatty chemicals and edible oils.

Overall, net income rose by 4.2 per cent to Y13.1bn, on which Kao will pay an interim dividend of Y6 a share, a Y0.5 gain on the comparable period.

Clark tight-lipped on Coles Myer move



By Nikki Tait in Sydney

Mr Nobby Clark (above), the outgoing chairman of Foster's Brewing Group, yesterday remained tight-lipped over whether he would replace Mr Solomon Lew as chairman of Coles Myer, Australia's largest retailer and the recent focus of institutional investors' concerns over corporate governance standards.

"I've made no decisions about my future... let's wait and see what transpires," he commented after formally retiring from the Foster's board at the company's annual meeting yesterday. Remaining board directors at Coles and institutions who led the putsch were yesterday due to start discussing the appointment of the new chairman and five new non-executives.

Foster's, meanwhile, told its shareholders it retained about A\$600m-worth (US\$450m) of core assets after its recent restructuring. As these are sold over the next few years, Foster's should emerge debt-free. This, said Mr Clark, would leave the group with

"an unencumbered brewing business, and the potential to leverage those assets as suitable investment opportunities are identified".

He gave no clues as to what expansion opportunities were under consideration, but confirmed that any acquisition outside Australia would be within the beer business.

"While there is no immediate time pressure, we obviously cannot stand still," he said, later indicating that an acquisition might be possible within the next 12 months.

Foster's also announced that Mr John Ralph, the former chief executive of CRA, the mining group, would be its new chairman. The three institutions which spearheaded the drive for boardroom changes at Coles Myer said they hoped to pronounce this week on the future composition of the retailer's board. They said all parties agreed that the aim was for a united board, and added: "In the interests of fairness to the individuals who might be involved, it was agreed in the meantime that no further public statements would be made."

Comalco in A\$81m disposal

By Nikki Tait

Comalco, the Australian aluminium company controlled by CRA, is selling its aluminium extrusion and distribution businesses to Capral Alumina.

Capral was previously known as Alcan Australia, but changed its name after Canada's Alcan Alumina sold its 73.3 per cent stake to Australian investors last year.

The businesses involved in the sale include aluminium extrusion operations in three states, with a combined capacity of about 38,000 tonnes a year, and a distribution network which takes in 10 warehouses and three sales offices nationwide.

Comalco said the sale price was in excess of book value. The disposal follows earlier moves by the group to concentrate on upstream alumina and aluminium smelting, which included the sale of its US-based Commonwealth Aluminium unit for about US\$190m. It added it was continuing talks on the sale of its rolled products business.

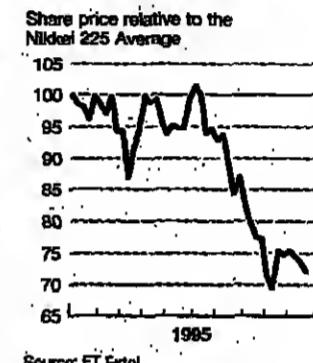
Like all Japanese banks, NCB is likely to report sharply higher operating profit next month when it discloses its results for the six months to the end of September. Profits from bond trading in a favourable climate of falling interest rates have helped most banks improve their performance so far this year.

But the bank is one of the most troubled even by current Japanese financial standards. At the end of March it disclosed problem loans of Y611bn (\$61bn), or 6 per cent of its total loan book. Analysts estimate that the bank's total non-performing assets could be more than 11 per cent of its loan book. On current cost and revenue trends it could take more than 20 years for the bank to eliminate them.

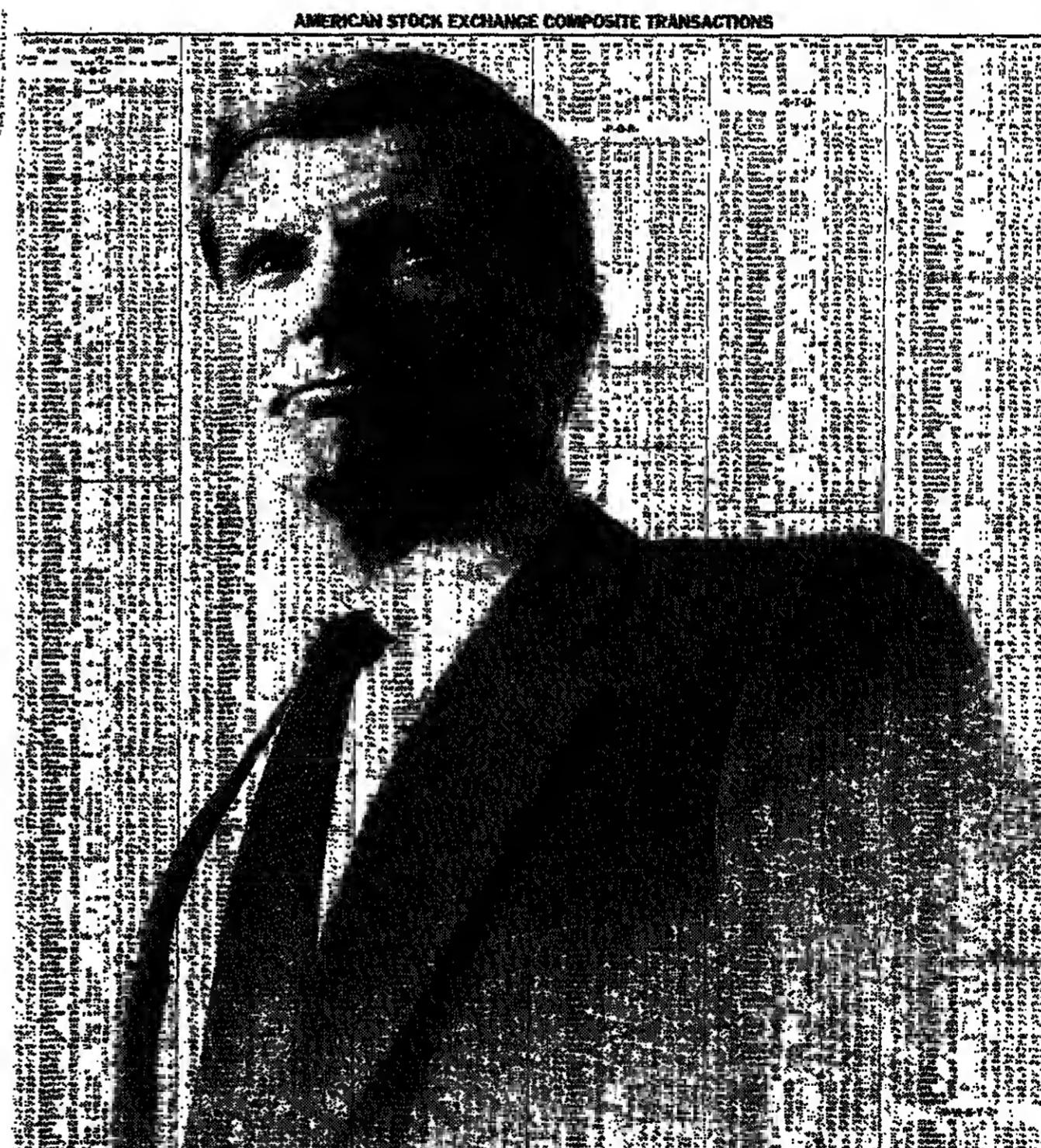
proportion among the 21 largest banks. However, the figure does not include a range of other loans that are, in effect, non-performing, including restructured loans (where the interest has been slashed to keep borrowers from bankruptcy) and loans to the troubled mortgage companies.

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Nippon Credit Bank



Source: FT Data



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The undersigned acted as financial advisor to Cimenterie Nationale SAL.

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April 1995

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COMPANY NEWS: UK

Dobson rejects prospect of increased offer

By Tim Burt

The battle for control of Dobson Park Industries intensified yesterday after the UK mining equipment group rejected the prospect of an increased takeover offer from Harnischfeger Industries, the US manufacturer of coal-cutting machinery.

Milwaukee-based Harnischfeger told Dobson Park that it would lift its bid from £172m to £200m if the company agreed to recommend the cash offer to shareholders.

However, Dobson Park said the proposed offer still undervalued the company and failed to recognise the export potential of Longwall International, its roof supports and conveyors subsidiary.

Mr Adrian Buckmaster, chief executive of Dobson Park, said: "If Dobson Park is to lose its independence, then shareholders need to receive full value for a business which is clearly on an improving trend."

Under the proposed offer -

made at the weekend - the US group offered to increase its bid from 110p a share to 125p, while promising to pay shareholders the 3.3p final dividend announced by Dobson Park on Friday.

The increased dividend, up from 2.85p last time, followed publication by the UK company of a buoyant profit forecast, which predicted a 41 per cent increase in pre-tax profits to £14.8m this year.

Yesterday, Harnischfeger was said to be exasperated that Dobson Park had revealed the terms of its "confidential" proposal, which was conditional on receiving a recommendation from the Dobson Park board.

Nevertheless, the US group is today expected to extend its original bid - pending a decision on whether to make a revised offer at the end of this week.

Some US industry analysts said it was unlikely to increase its bid much above the total of 128.5p a share offered at the

weekend.

"Having offered something more, I would not expect them to increase the bid again," said Mr Tom Burns at NatWest Securities in New York. But an institutional shareholder in Dobson Park said that might not be enough.

"We have been patient investors in Dobson Park for many years and we won't be rushing to bail out at this junction," said one institution, which asked not to be named.

Three institutions - British Assurance, Baring Fund Managers and M&G Investment Management - together hold more than 30 per cent of Dobson Park.

Kleinwort Benson Securities, which is not involved in the bid, said Harnischfeger needed Dobson Park "in order to grow and also to defend its market share".

Dobson Park shares, which traded at 83p on the day Harnischfeger first announced its interest, closed down 1p at 124p.

Thorn EMI disposal raises \$151m

By Patrick Harverson

Thorn EMI, the leisure group, has raised \$150.5m in cash from the disposal of its remaining 2.8 per cent stake in SGS-Thomson, the Franco-Italian semiconductor manufacturer. The proceeds will be used to reduce borrowings.

The sale of the 3.6m shares was concluded as part of a public offering by SGS-Thomson and its main shareholders, which include France Telecom and Thomson-CSF, the state-owned electronics group, and the Italian conglomerates IRI and Comitati SIR.

The owners of SGS-Thomson sold a total of 18m shares at \$43.50 each to raise funds for expansion at the company, which has already benefited from strong demand within the semiconductor industry.

Thorn EMI's stake in SGS-Thomson has been steadily reduced from 10 per cent in the past few years as part of a withdrawal from non-core businesses. The group to demerge its music and household rental businesses. Sir Colin Sonnigate, chairman, hopes to unveil formal proposals on the division of the two businesses in the first quarter next year.

However, Thorn EMI may not get the chance to demerge. Its shares have risen in recent months amid speculation that a North American entertainment group would pre-empt the split by launching a bid for EMI Music, the group's music division and the world's third largest record company.

Thorn EMI's shares fell 21p to £15.30p.

SmithKline in BFr2bn R&D investment

By Patrick Harverson

SmithKline Beecham, the pharmaceuticals and health-care group, is to invest a further BFr2bn (\$39m) in research and development at its vaccine headquarters in Rixensart, Belgium.

The group plans to build a new R&D facility on the present site, to be up and running by the end of 1997. More scientists will be recruited.

SB's vaccines business has seen significant growth over the past five years, which it expects to continue. Its newest product, Infanrix, protects against whooping cough, tetanus and diphtheria, and is the first stage in its strategy to transform the children's vaccine market by combining vaccines into a single shot.

"We are in discussions with two or three people," Mr Monks said.

A deal might be struck as

Judge clears \$185m T&N case for trial

By Tim Burt

Chase Manhattan, the US bank, yesterday claimed it had won the first round of a \$185m legal action against T&N, the British engineering group, over alleged asbestos contamination of its New York headquarters.

The bank said the judge handling the case against T&N, formerly a leading asbestos supplier, had rejected moves by the UK group to have the case dismissed in a summary judgment.

Judge John G Koeltl said Chase could pursue claims against T&N for "negligence, strict liability, fraud, restitution, indemnity and public nuisance".

The case is expected to last at least six weeks.

Judge Koeltl has also appointed a so-called special master, a senior attorney who will seek a possible settlement between the two sides.

T&N said it had not expected to win at this stage and was fully prepared to contest the case before a jury in the US district court for the southern district of New York.

The case, which will open next Monday, centres on allegations by Chase that T&N was aware of the health hazard when it supplied asbestos during the construction of Chase Plaza in 1959.

It is claiming \$100m in punitive damages and at least \$85m for removing the material from the building.

If it wins the case, Chase claims it could prompt potential

similarly larger lawsuits by New York's Port Authority over asbestos used at the World Trade Center and LaGuardia airport.

Mr Michael O'Connor, senior associate counsel and vice president of Chase, said: "T&N had staked an awful lot on winning this judgment. Most of their exhibits go to the issue of Chase's own negligence and this has been ruled inadmissible."

T&N, which has denied liability, rejected Chase's action and accused it of exaggerating the importance of the preliminary ruling.

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LEX COMMENT

BTR buy-out

BTR's £22m buy-out of BTR

Nyplex's minority shareholders

has failed to spark any investment enthusiasm

BTR's share price relative to the

FTSE All-Share Index

price has underperformed the

stock market by 10 per cent

since the somewhat uninspired

deal. Part of the reason is that

BTR's shares rise above 220p,

arbitrageurs can sell them and

buy them back more cheaply

via the Nyplex cash and share

offer. This will continue to

restrain BTR's share price

until Nyplex ceases trading in

early December. But once the

BTR shares have off-loaded their new

source, BTR

shares, there should be a

rebound.

The shares offer a prospective yield that is a third higher than the market average. Some investors are worried that gearing will rise to over 100 per cent after Nyplex. However, interest cover will be comfortable, while internal cash generation and £1.2bn from warrant conversions over the next two years mean there is no threat to dividend growth.

BTR's lowly market rating ignores two factors. BTR has been investing in growth areas, such as batteries, automotive sealings and high-tech packaging, which should yield substantial returns. Nyplex provides further opportunities for investment in growing Asian markets. Meanwhile, Mr Ian Strachan, the new chief executive, is likely to shake up strategy. Selling non-core businesses such as Dunlop and reinvesting in higher growth manufacturing would make BTR look more like an engineering company than a traditional unfashionable conglomerate - which would do wonders for the shares.

From seal of approval to symbol of quality

BABT is carving out a new role for itself in the international telecoms market. Alan Cane reports

The British Approvals Board for Telecommunications, for more than a decade the bane of manufacturers basking to introduce new telephone equipment quickly to the UK, is seeking a bigger role in international telecoms.

It is hoping to persuade manufacturers which once saw it as a barrier to their progress that it can offer a unique form of quality assurance, giving them a competitive edge over their rivals.

It has been forced to rethink its commercial strategy by a European Union decision that has had the effect of reducing the amount of approvals work it is called on to carry out.

BABT is responding to the challenge in three ways.

First, it is encouraging manufacturers to opt for voluntary BABT certification as a way of adding value to their products. It argues that manufacturers should see the benefits of having their products tested to a higher standard than simple EU certification. Proof of compliance is a new BABT mark of approval, a white tick on a blue background circled by the EU stars.

Second, it has developed methods of analysing and test-

ing the systems telecoms operators use to meter calls and prepare customers' bills. Industry regulators, such as Ofcom in the UK, are demanding evidence that billing systems perform satisfactorily.

Finally, as governments worldwide privatise their telecoms operators and liberalise their markets, BABT is being consulted on the establishment of equipment approvals procedures in countries such as Bulgaria and Indonesia.

By 2000, Mr Clarke believes, only 25 per cent of BABT's work will be routine approvals. He expects the group's total revenue to grow from about £3.5m today to more than £5m.

The board not only approves products made by its 2,500 customers worldwide but also certifies the factories that make them. Earlier this year, for example, Cisco, the fast-growing Californian networking company, became the first US company to be given a BABT Full Quality Assurance certificate for its manufacturing facilities in San Jose.

BABT certification will allow Cisco to sell products designed to connect to European telecoms networks without further rounds of testing and approval.

"We are in discussions with two or three people," Mr Monks said.

A deal might be struck as

Cash call likely to fund MY buy

By Patrick Harverson

SmithKline Beecham, the pharmaceuticals and health-care group, is to invest a further BFr2bn (\$39m) in research and development at its vaccine headquarters in Rixensart, Belgium.

The group plans to build a new R&D facility on the present site, to be up and running by the end of 1997. More scientists will be recruited.

The group is expected to have a significant acquisition in each of the past five years - the most recent was the \$22.4m purchase last November of PropharmaFak, a manufacturer of cartons for the drugs industry. It has financed two of those deals with rights issues.

Mr Monks said he was confident that the stock market would support another cash call.

The management's ultimate aim, he said, was to build a business with a market value of between £200m and £250m, making it one of the top 10 pharmaceuticals in the UK packaging industry.

Turnover rose 51 per cent to £77.1m, of which 56.7m came from acquisitions.

early as next spring, he added.

Although the next few deals would be restricted to the UK market, Mr Monks said the group would eventually look to buy businesses in continental Europe.

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COMMODITIES AND AGRICULTURE

Lead and nickel consumers warned of price rises

By Kenneth Gooding,
Mining Correspondent

Consumers of lead and nickel were warned yesterday that tightness of supply was likely to drive up prices. Shortages of aluminium - and accompanying high prices - would also appear, but not until 1997, it was suggested at a seminar organised by the London Metal Exchange. Upward pressure on the copper price would ease as supply surpluses developed, delegates were told, and it would take some time for deficits to produce genuine tightness in the tin market.

Aluminium: Mr Tony Bird, of the Anthony Bird Associates consultancy, said he did not expect aluminium prices to fall much further from the \$1,640 a tonne level - the lowest for 12 months - reached last week on

Forecasts made at LME seminar (US cents/lb)	
1996	1995
Aluminium	72.9 82.3
Copper	125 133
Lead	31.7-34
Nickel	400+ 373
Tin	300-350 280
Zinc	49.9+

the LME but it would not be until 1997 that there would be a substantial rise.

At that time the industry's failure to invest in new capacity coupled with increasing demand would push prices back up from an average of \$1,600 a tonne in 1996 to \$1,700.

Mr Bird calculated that the industry was to add only 1.1 per cent a year to existing primary aluminium capacity at a

time when demand growth was an annual 3.7 per cent. He said the industry at present could justify an LME cash price of \$1,610 and if prices went below that level it would cause companies to think again about restarting idled capacity.

Copper: After two years of substantial supply deficits, the copper market would move into surplus in 1996 but not until the second half, said Mr Huw Roberts of the Brook Hunt metals consultancy.

"At this stage, however, we are reluctant to forecast even a decline as we see the market remaining physically tight for at least another six months."

LME copper prices would be well supported through the first half of 1996, said Mr Roberts, but then dip to average \$1,10 a pound by next

December. Lead: Mr Chris Torrible of the CRU International metals consultancy warned that lead stocks might approach historically tight levels in 1996 and be equivalent to only five weeks of consumption. When that last happened, in 1988, "we had a boom in prices."

Lead prices would move above \$760 a tonne in the middle of towards the end of next year and the average for 1996 would be between \$700 and \$780 a tonne.

Nickel: Nickel supplies would be tight for the next few years, predicted Mr Jim Lennon, analyst at the Macquarie Bank group. Market stocks would be at a critical level - "where prices can really take off" - if there was a further fall of 50,000 tonnes. That critical level might be reached in 1997.

In the short term, however, demand might not be maintained at "1995's inflated level" and "LME prices could come under further downward pressure, perhaps towards \$3 a pound".

Any fall in the nickel price would be short lived, Mr Lennon insisted. "By the middle of next year we expect to see LME nickel prices trading back above \$4 a pound. A movement above \$5 is possible in 1997."

Tin: Substantial rises in the tin price could not be expected until world stocks fall below 20,000 to 25,000 tonnes, equivalent to six or seven weeks demand, said Mr Andy Shaw of the Resource Strategies metals consultancy.

Only 60 per cent of today's tin production capacity was profitable at the operating level at \$2.50 a pound and the

long term economic price of tin production was likely to be some way above the highest price achieved this year (\$3.31 a pound). Resource Strategies is forecasting an average tin price between \$3 and \$3.50 in 1996 against \$2.90 this year.

Zinc: CRU's Mr Torrible said demand for zinc was likely to fall to "recession levels" and grow by only 0.8 per cent as consumers reduce the big stocks they built up this year when "apparent consumption" (including stock building) grew by 6.7 per cent.

Mr Torrible forecast a zinc supply deficit of 500,000 tonnes this year and nearly 300,000 tonnes in 1996, but the short term price outlook was not bullish. Nevertheless, zinc should recover to average and show further gains in 1997.

Iron ore outlook brightens as demand improves

By Frances Williams in Geneva

Strong demand for iron ore has begun to lift previously depressed prices this year and the outlook for 1996 also looks bright, according to the United Nations Conference on Trade and Development.

In a report prepared for a three-day meeting of experts that began yesterday in Geneva, Unctad foresees continuing strong demand for steel and iron ore products over the next year or so, especially in developing countries including China and in eastern Europe.

World consumption of iron ore rose by 3.4 per cent last year to 95.4m tonnes from 92.5m tonnes in 1993, boosted mainly by an upsurge in the steel sector in Europe and the US. Demand for ores was strong in a number of developing countries, and there was some stock rebuilding.

World iron ore production also rose by 3.4 per cent in 1994 to 97.0m tonnes. Brazil, which mined 16.7m tonnes, is now the leading producer in terms of marketable ores. China, the world's biggest consumer, mines a bigger gross tonnage but less than half its production of 235m tonnes last year is useable.

Jamaica bauxite output falls by 6.5 per cent

By Canute James in Kingston

Jamaica's bauxite (aluminium ore) production fell to 8.1m tonnes in the first three quarters of this year, 6.5 per cent less than a year earlier, according to the Jamaica Bauxite Institute. Alumina (aluminium oxide) production fell 5.7 per cent to 2.2m tonnes.

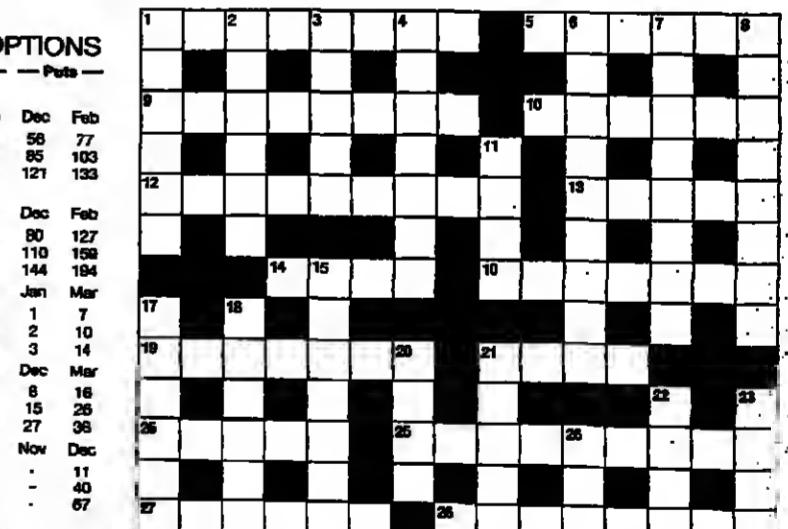
The reduction was caused by strikes at three of the island's four refineries earlier this year, said Mr Dennis Morrison, senior economist at the institute. Plants were affected also by several technical problems, he said.

The industry would be unable to reach last year's output of 11.7m tonnes of bauxite and 3.3m tonnes of alumina, Mr Morrison reported. Higher prices, however, would leave Jamaica's earnings from the industry above last year's US\$613m.

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■ COCOA CSE (10 tonnes; \$cents/lb)

■ COCOA CCO (SDRs/tonne)

■ COFFEE LCE (\$tonne)

■ COFFEE CSE (37,500lb; cents/lb)

■ COFFEE CCO (SDRs/pound)

■ LIV. HOGS CME (40,000lb; cents/lb)

■ PORK BELLIERS CME (40,000lb; cents/lb)

■ COFFEE CSE (37,500lb; cents/lb)

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■ LIV. CATTLE CME (40,000lb; cents/lb)

■ COFFEE CSE (37,500lb; cents/lb)

■ COFFEE CCO (SDRs/pound)

■ LIV. HOGS CME (40,000lb; cents/lb)

■ PORK BELLIERS CME (40,000lb; cents/lb)

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INTERNATIONAL CAPITAL MARKETS

Political turmoil takes its toll on Italian sector

By James Harding and Richard Lapper in London and Lisa Branstien in New York

Political turmoil in Rome took its toll on the Italian bond market yesterday, as the 1996 budget looked likely to be the first victim of a no-confidence motion in the government of Mr Lamberto Dini.

On a generally weak day for European bonds, even German bonds just failed to hold their ground despite the D-Mark's strength against the dollar.

The market's negative sentiment was a hangover from the weekend, as European traders came in on Monday morning to find US Treasuries lower than they left them on Friday.

European bonds continued to follow the depressed mood in New York, as profit-taking in the Treasuries markets after a recent bullish run pushed down prices.

Mr Ian Gunner, international economist at Chase Manhattan, explained the "subdued mood": "With Treasuries in corrective mode in the US and currencies weak against the D-Mark in Europe, the markets are just coming back a little."

■ An announcement from the hard-left Reconstructed Communism, formed from the old Italian Communist Party, that it plans to vote against the Dini government in Thursday's no-confidence motion only undermined already shaky confidence in Italy's public finances still further.

"This is the worst scenario, no Dini, no budget," one London trader said.

The 10-year yield spread over German bonds edged towards the psychologically important 500 point level and the December Liffe contract fell 1.27 to settle at 98.94.

Analysts expected the yield spread would continue to widen, returning to the 625-650 point levels last seen in March.

HSBC Markets envisages four possible scenarios in Italy:

A snap election, "the worst-case scenario" for the Italian market; another stop-gap

budget; a new government; or a

GOVERNMENT BONDS

administration, unlikely but "more favourable"; a Dini resignation conditional on passing the budget, "market positive"; and Dini just holds on, "the best hope for the markets".

Nevertheless, HSBC concludes, "There is still downside risk at current levels".

■ The Italian market stood out for the scale of its decline, but was not alone as bond markets softened across the board.

German bonds slipped back in line with US Treasuries, but the December Liffe contract, sustained by technical support at its session lows of 95.77, bounced back to settle at 95.97.

The yield curve steepened as investors, attracted by the strength of the D-Mark, bought short-dated German paper.

Bond traders said the focus today is likely to be on the autumn reports from leading economic research institutes and inflation figures from Baden-Württemberg, both offering clues to future movements in monetary policy.

■ There was little domestic impetus to the gilt markets after the UK government's third-quarter GDP figures came in almost exactly in line with market expectations.

The dollar suffered yesterday as traders moved holdings from Italian lire and French francs into the D-Mark, amid political uncertainty in France and Italy.

A key issue was the US borrowing limit, which the Treasury was close to meeting - causing the government to reduce the size of the afternoon auction of three and six-month Treasury bills.

In early trading the dollar was changing hands at DM1.3830 compared with DM1.3976 late on Friday. It also

lost ground against the yen, slipping to Yen 106.63 from Y100.55.

Bonds also came under pressure as the Treasury prepared to auction \$17.75bn in two-year notes this afternoon and \$11.5bn in five-year notes on Friday.

Traders continued to look to Washington, where Congress and President Bill Clinton were wrangling over the shape of the government's budget - especially since no important economic data was expected.

Near midday, the benchmark 30-year Treasury was \$ lower at 1054 to yield 6.37 per cent. At the short end of the maturity spectrum, the two-year note was off 1/2 at 100, yielding 5.731 per cent.

The dollar suffered yesterday as traders moved holdings from Italian lire and French francs into the D-Mark, amid political uncertainty in France and Italy.

A higher limit is expected to be introduced in the new budget package and Congress was holding out against a temporary increase in the debt ceiling.

Prague to update market regulations

By Vincent Boland and Kevin Done in Prague

The Czech Republic is to make the first significant changes to the rules governing its capital markets since mass privatisation began in 1991.

The proposals, to be put to parliament shortly, are aimed at strengthening investor protection and improving market transparency.

However, they fall short of creating an independent watchdog to police the market and enforce legislation.

Brokers and investors have cautiously welcomed the changes but many said they will only be effective if the finance ministry, charged with overseeing the market but lacking expertise, enforces the market evolved.

The changes are designed chiefly to protect small investors, whose interests are often ignored by investment funds, the main shareholders in industry after privatisation.

Under the new rules, holders of 10 per cent or more of one company must be disclosed; minority shareholders must be

offered buy-out terms when an investor takes 50 per cent plus one share in a company; and dividends must be paid by bank instrument rather than as in some cases cash.

They also allow for the creation of independent share registers and for shareholders to vote by proxy. The regulations are expected to become law by next February.

The proposals have been drafted by Mr Tomas Jezek, a member of parliament tipped to become chairman of the Prague stock exchange after next June's general election.

He said the existing rules, drawn up in the "laboratory conditions" created to facilitate vouchers-for-shares privatisation, needed to be updated as the market evolved.

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Yen bond for Philippines power group

By Edward Luce in Manila

The Philippine National Power Corporation (Napocor) is to issue a Y12bn eurobond in December. The 20-year debt, the longest maturity bond issued by the organisation since the Philippines returned to the debt markets in 1993, will be priced next month and underwritten by Nomura International in Hong Kong.

Napocor, which is due to be privatised next year, said low Japanese interest rates made it more attractive to issue in yen than dollars.

There will be an international roadshow from November 13 to 17. The closing and payment date for the issue is expected to be December 11.

Principal will be guaranteed by the Asian Development Bank in Manila and interest by the Philippine government.

EIB to make DM2bn seven-year offer this week

By Antonia Sharpe

The European Investment Bank, which has embraced the World Bank's method of giving the market advance notice about its benchmark deals, is set to raise DM2bn this week through an offering of seven-year eurobonds.

INTERNATIONAL BONDS

The issue, which is being arranged by CS First Boston and Deutsche Morgan Grenfell, is expected to be priced to yield between 5 to 8 basis points over the 7% per cent German government bond due 2002.

Many syndicate managers believe this will be the last large D-Mark deal this year.

Dr Ulrich Damm, director of capital markets at the EIB, said that although the bank had been very cost-sensitive in the past, the trend to launch

ing bigger deals required a different strategy.

"We would like to improve our co-operation and communication with the market," he said. "By listening to the market we hope to satisfy all requirements."

The other big deal of the week is a \$1bn offering of global bonds for Ford Motor Credit Corp, which is being arranged by Goldman Sachs. The offering, Ford's first global since 1993, is expected to be priced to yield in the region of 50 basis points over US Treasuries. The deal is expected to be launched by tomorrow.

Among issues launched yesterday, DePfa Bank doubled the size of its recent DM500m offering of six-year eurobonds which had been launched at a yield spread of 20 basis points over bonds. Although the spread had tightened to about 15 basis points, yesterday's re-opening was priced to yield 19 basis points.

Mr Frank Röhland, DePfa's treasurer, said the bank only had to raise a further DM3.5bn, about 10 per cent of this year's borrowing programme, by the end of the year. This amount would be raised opportunistically, he said.

Elsewhere, Yukong, a Korean oil company, launched its first fixed-rate eurodollar offering, raising \$100m through a five-year deal priced to yield 62 basis points over when-issued Treasuries. Lead manager Merrill Lynch said Yukong wanted to increase its access to European investors.

Standard & Poor's has assigned a rating of double-B minus to the long-term foreign-currency debt of Paraguay.

S&P said the rating was underpinned by Paraguay's record of cautious macroeconomic management and its modest net external debt burden.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Yield to maturity

MARKETS REPORT

Poll concerns in Italy and Canada upset markets

By Philip Gash

Politics provided the fuel for a lively day on the markets yesterday with concerns about a no-confidence vote in Italy and the Quebec referendum dominating activity.

The focus of attention was in Europe where the combination of fears that the government of Mr Lamberto Dini might be unseated, forcing early elections, and a bout of political jitters in France, caused investors to rush into the D-Mark.

The lira fell as low as L1.171 against the D-Mark, before recovering to finish at L1.168, a sharp fall from L1.145 on Friday. The franc fell as far as FF13.525, before recovering to finish at FF13.527.

The stronger D-Mark weighed on the dollar, which closed at DM1.3861, from DM1.3979, and Y99.695, from Y100.655.

Sterling also suffered at the hands of the D-Mark, finishing at DM2.1899, from DM2.2031,

but was slightly firmer against the dollar at \$1.681, from \$1.678.

The Canadian dollar fell sharply following weekend polls which suggested the vote in favour of Quebec separating from Canada was increasing.

It closed at C\$1.6883, from C\$1.6865, against the dollar.

The trigger for renewed market anxiety about Italy was the announcement by the Communists that they would be voting alongside Mr Silvio Berlusconi's Forza Italia in the no-confidence vote, making the defeat of the prime minister Mr Lamberto Dini more likely, and early elections too.

If so, this could derail the 1996 budget, and see Italy return to its history of endemic political instability. Mr Mike

Gallagher of IDEA, the financial markets consultancy in London, said: "The market believes that the early demise of Dini would be bad for sound financial management".

In France, meanwhile, a newspaper report that President Jacques Chirac could face investigation for the same house irregularities as prime minister Alain Juppe, undermined the franc, as did rumours of a possible cut in official interest rates.

The currency, however, gained some support from a tightening of short term interest rates, with three month money rising by 7/4 per cent.

The generalised rush into the D-Mark burt the dollar, but it was underpinned by fears of central bank support below DM1.38. Some observers believe that the central banks will step in if the dollar is sold aggressively below DM1.38.

Mr Avinash Persaud, currency strategist at JP Morgan, said central banks were probably more concerned about the dollar than the D-Mark rate. Given that this had shifted significantly from the lows, and the level at which the central banks intervened, they were probably not as anxious about current events as dollar bulls.

It is also worth noting that the dollar is not universally

weak. Indeed, on a trade weighted basis, it is not far off an eight year high.

Mr Persaud said a key factor behind central bank support for the dollar this year had been a desire to change the market psychology that the dollar is headed inexorably lower. They achieved some success over the summer, but if that psychology is seen to be returning, they may well re-enter the market.

One factor which distinguishes the current scenario from events in March, when political turbulence in Europe and concerns about the dollar drove the D-Mark to record highs, is the market exposure of institutional investors.

For example, foreign holdings of the French bond government market have halved from the end of 1993, to around 18 per cent at present. The scope for selling the currency is therefore not as large as it was earlier in the year.

Analysts said the fall in the

Canadian dollar represented a late awakening by the market to risks of a "yes" vote, following a large degree of complacency until recently.

Mr Stephen Yorke, political analyst at Chase Manhattan in London, said that "for methodological, historical and political reasons the most likely outcome is a "no" vote in the 52.53 per cent range". He said the worst result would be a narrow vote in favour of secession, which would lead to huge uncertainty about relations with the Federal government and the US.

The Bank of England cleared a £900m money market shortage in its daily operations.

WORLD INTEREST RATES

MONEY RATES										
October 23										
	Over night	One month	Three months	Six months	One year	Lomb. inter.	Dis. rate	Repo rate		
Belgium	4.4	4.4	4.4	4.4	4.4	4.4	8.00	3.50		
France	6.9	7.9	7.9	7.9	7.9	7.9	5.00	7.00		
Germany	4.4	4.4	4.4	4.4	4.4	4.4	3.50	4.03		
Denmark	5	7.4	7.4	7.4	7.4	7.4	5.00	6.25		
Ireland	5.4	5.4	5.4	5.4	5.4	5.4	5.00	10.38		
Italy	10.7	10.7	10.7	10.7	10.7	10.7	9.00	10.65		
Netherlands	3.8	3.8	3.8	3.8	3.8	3.8	3.50	3.70		
Switzerland	1.8	2.2	2.2	2.2	2.2	2.2	6.00	2.00		
UK	5.1	5.1	5.1	5.1	5.1	5.1	5.00	5.25		
Japan	4	5	5	5	5	5	5.00	6.50		
week ago	5	5	5	5	5	5	5.00	6.50		

8 LIBOR interbank fixing rates are offered rates for \$10m quoted to the market by four reference banks.

LIBOR rates are shown for the domestic Money Rates, US CDs, ECU & SDR United Deposits (CDs).

SDR rates are shown for the SDR United Deposits (CDs).

week ago

week end

week

month

quarter

year

10-year

20-year

30-year

40-year

50-year

60-year

70-year

80-year

90-year

100-year

110-year

120-year

130-year

140-year

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1020-year

1030-year

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AMERICA

Dow lower, led by Europe, Canada, bonds

Wall Street

Weakness in global equities and in the US bond and currency markets led US shares lower in early trading, writes Lisa Branstien in New York.

At 1pm the Dow Jones Industrial Average was off 33.96 to 4,760.90. The more broadly based Standard & Poor's 500 retreated 2.95 to 584.87, while the American Stock Exchange composite was 5.53 lower at 926.14. Volume on the New York SE amounted to 18.3m shares.

The technology-rich Nasdaq composite gave up 6.36 at 1,033.13.

Equities were mostly mixed across Europe and in Canada, and the US bond market continued the decline begun on Friday. In early afternoon trading the benchmark 30-year Treasury bond was off nearly half a point, sending the yield up to 6.378 per cent.

The dollar also did against the D-Mark as political uncertainty in France and Italy caused investors to seek safe havens in the German currency.

In individual shares, Wells Fargo and First Interstate gave up some of the sharp gains made last Wednesday after Wells Fargo announced a hostile bid for First Interstate, Wells Fargo, which had been up more than 89 by the end of last week, slipped 6.8% to \$216.5, and First Interstate shed 7% of its gain of nearly \$32 last week, bringing the share to \$130.

Meanwhile, BankAmerica added 0.1% at \$64 and NationsBank was 0.7% higher at \$70.75.

Mexico upset by \$

Mexico City felt the effect of a weak US dollar and by midday the IPC index had fallen 23.43 or 1 per cent to 2,305.99.

Investors were also disappointed by third-quarter results from Banamex-Accival, the financial company, which receded 1.6% per cent.

SAO PAULO also contended with the US influence and by mid-session the Bovespa index had retreated 608 or 1.3 per cent to 46,030.

SANTIAGO made steady

amid speculation that the California and North Carolina-based banks might merge to form the largest bank in the US. The continuing wave of quarterly reports moved several shares. Nabisco shed \$1.27 after reporting disappointing third-quarter earnings, while US Healthcare added \$1 at \$38.40 after reporting net income of 90 cents a share, a cent ahead of the mean analysts' estimate.

Liz Callahan was up \$2.4% or 9.5 per cent at \$26 after reporting third-quarter earnings of 64 cents a share, 6 cents ahead of the mean estimate.

Quaker Oats showed little reaction to the news the company's president and chief operating officer, Mr Philip Marceau, had resigned. The shares, which had lagged behind the market this year, slipped 8% at \$34. Quaker was scheduled to put out its third-quarter results on Thursday.

Canada

A selling wave spurred by fears that the separatists may win the October 30 Quebec referendum hit Canadian stock markets yesterday, writes Robert Gibbons in Montreal.

At 1pm the Toronto Stock Exchange 300 composite index was down 106.34 or 2.4 per cent at 4,331.99. The market, at this point, had lost about 4 per cent of its value in the past three trading days.

The financial services sector, down 3.5 per cent, oil and gas, off 2.5 per cent, and industrial products, 2.3 per cent lower, bore the brunt of the losses. At one point the index showed a drop of 109 points.

EUROPE

Dollar, bond weakness hits Continental bourses

Falls in the dollar and bonds hit bourses almost indiscriminately. France and Italy, where domestic currencies were weak, had political and monetary problems of their own, writes Our Markets Staff.

FRANKFURT heard Mr Michael Camdessus, managing director of the International Monetary Fund, maintain that there did not seem to be any "serious" misalignment among major currencies at the moment; and Mr Ernst Weltevete, a Buba council member, say that the German repo rate was unlikely to decline to 3.75 per cent as swiftly as had been assumed several weeks ago.

This was bad news for cyclical and defensive stocks respectively, and both suffered as the Dax index fell 31.26 or 1.5 per cent to an Ibis-indicated 2,116.86; turnover rose from DM7.2bn to DM7.4bn.

Mr Matthias Weltevete, strategist at Merck Finck in Düsseldorf, said that the market had broken down through a 200-day moving average yesterday. "This," he said, "is usually a sell signal."

The put/call ratio reflecting options trades on the Deutsche Terminbörse had been rising in recent days, said Mr Weltevete.

With reports that a number of brokers had upgraded the stock following the publication of first-half figures at the end of last week, the shares made

an extension of this trend could take it to a peak of pessimism, and suggest that shares were severely oversold. "However," he added, "if the dollar falls to DM1.34, or DM1.33, or worse, equities could really collapse."

PARIS was alarmed by the disclosure that Mr Jacques Chirac, the French president, might face prosecution in connection with a flat he had rented while mayor of Paris. Only a matter of a few weeks ago Mr Alain Juppé, the prime minister, had faced a similar threat which led to calls for his resignation.

This news was partly to blame, traders said, for a fall in the franc and the expectation that the central bank might have to tighten short-term money rates in its defence.

The CAC-40 index closed 19.55 down at 2,711.14 in turnover of FF13.4bn.

Générale des Eaux provided one of the rare positive movements of the session as the shares recaptured some of Friday's losses.

With reports that a number of brokers had upgraded the stock following the publication of first-half figures at the end of last week, the shares made

ASIA PACIFIC

Seoul declines by 2.3% on 'slush fund' allegations

Seoul dropped 2.3 per cent on allegations by a former aide of Roh Tae-woo that he had managed a Won44.5bn (\$63m) political slush fund for the South Korean ex-president.

The composite index closed 23.11 lower at 767.39. Sunkyoung and Dong Bang, linked to the former, were down 1.7% and 1.6% respectively.

The financial services sector, down 3.5 per cent, oil and gas, off 2.5 per cent, and industrial products, 2.3 per cent lower, bore the brunt of the losses. At one point the index showed a drop of 109 points.

Buying of blue chips, such as Hyundai Motor, limited the fall in the afternoon, brokers said. Hyundai Motor finished just Won30 lower at Won1,500, after Won2,000. Posco touched Won65,000 before ending off Won300 at Won7,700.

the electronics sector ahead of interim results due this week. While profits had bottomed out because of the recovery in demand for personal computers and mobile telephones, some analysts warned that a heavier reliance on international markets could pose a risk. "Japanese demand accounts for no more than 10 to 15 per cent of the total," said Mr Peter Tasker at Kleinwort Benson. "So, if these markets slow, the Japanese suppliers of key components are bound to hurt."

The high-technology sector was mixed, with Toshiba, the day's most active issue, up Y17 to Y770 and Oki Electric adding Y19 at Y987. Matsushita Electric Industrial lost Y10 at Y1,510 and NEC Y10 at Y1,400. Banks were lower on fears of further revelations following the Daiwa Bank debacle. In addition, Moody's, the international credit rating agency, downgraded three leading banks last week raising the risk of increased funding costs in overseas markets. The sector fell 1.1 per cent, with Industrial Bank of Japan down Y40 to Y2,910, Dai-ichi Kangyo

Bank Y40 to Y1,820 and Daiwa Bank Y16 to Y663.

The rise in the yen hit car manufacturers, with Mazda Motor dipping Y11 to Y338 and Suzuki Motor Y10 to Y1,070. Nissan Motor, however, rose Y7 to Y759, while Toyota Motor was unchanged at Y1,920.

In Osaka, the OSE average slipped 22.41 to 19,499.07 in volume of 32.4m shares.

Roundup

Domestic affairs provided incentives for selling in a number of the region's markets.

Singapore, Kuala Lumpur, Bangkok and Wellington were all closed for public holidays.

SYDNEY was affected by weaker base metal prices and nervousness ahead of tomorrow's CPI data, expected to show a significant increase in inflation. The All Ordinaries

index lost 17.5 at 2,089.30.

Coles Myer went against the trend, rising 5 cents to A\$4.47 ahead of confirmation that Mr Neil Clark, the outgoing chairman of Foster's, was set to become the retailer's new executive chairman.

Foster's, which was holding its annual meeting, shed 2 cents to A\$1.24. Shareholders of the brewing group were told that Carlton United was expected to make a strong contribution to its profits this year.

HONG KONG trading remained thin throughout the session. The Hang Seng index declined 14.71 to 9,880.53, off a day's low of 9,796.03. Turnover shrank to HK\$2.9bn from Friday's HK\$3.4bn.

MANILA's composite index breached its 2,600 support level, losing 16.19 at 2,585.17. Volume was huge, 10.06bn shares changing hands

warning by UK authorities about its oral contraceptive pill, lost £1.30 to £17.80. Fokker remained relatively steady, off 20 cents at F17.00, following announcements from parent group Dasa. The German aerospace group detailed restructuring measures, but said these did not apply to its Dutch subsidiary.

ZURICH had been relatively strong, up 0.4 per cent last week when Frankfurt fell 2.6 per cent and Paris 4 per cent, but it paid for that yesterday with the SMI index down 7.7, or 2.5 per cent at 30,041.7.

In banks, UBS and SBC both fell by just under 3.5 per cent, by SF1.43 to SF1.202 and by SF1.60 to SF1.438 respectively.

COPENHAGEN, with the KFX index of 1.27 at 99.78, followed by the SMHI index down 7.7, or 2.5 per cent at 30,041.7.

ISTANBUL eased on profit-taking as the market faced strong resistance near 50,000 support level. The composite index, down 1.25 at 50,000, or 0.7 per cent, to 48,667.17.

TURKEY shrank to TL7,790m from TL8,300m.

OSLO was hit by worries that Norsk Hydro might have hit the top of its profit cycle. The total index fell 9.88 to 719.75, with Hydro's NKX100 lower at NK265.50 in spite of better than expected profits for the first nine months of 1995.

CIRCUIT BOARD GROUP DASA, the German aerospace group, detailed restructuring measures, but said these did not apply to its Dutch subsidiary.

ZURICH had been relatively strong, up 0.4 per cent last week when Frankfurt fell 2.6 per cent and Paris 4 per cent, but it paid for that yesterday with the SMI index down 7.7, or 2.5 per cent at 30,041.7.

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TURKEY shrank to TL7,790m from TL8,300m.

Written and edited by William Cochrane and John Pitt

MARKETS IN PERSPECTIVE

	MARKETS IN PERSPECTIVE				
	% change in local currency	% change in US\$	% change in local currency	% change in US\$	
1 Week	4 Weeks	1 Year	Start of 1995	Start of 1994	
Australia	+0.52	-1.25	+5.72	+10.09	+5.72
Belgium	-0.71	+2.35	+1.22	+17.01	+18.22
Denmark	-0.94	+0.94	+0.97	+1.19	+1.24
Finland	-8.62	-10.73	-9.23	+13.29	+25.97
France	-3.62	-2.27	-4.37	-4.92	+2.41
Germany	-1.11	-2.24	+2.85	+1.41	+11.62
Ireland	-1.32	+10.10	+17.33	+15.15	+19.27
Italy	-5.74	-10.80	-7.45	-9.24	-8.70
Netherlands	-1.80	-1.93	+10.53	+7.32	+18.97
Norway	+0.22	-0.45	+8.21	+2.13	+11.13
Spain	-2.04	-4.53	+0.79	-3.55	+11.76
Sweden	-2.07	-3.00	+23.88	+23.85	+37.23
Switzerland	+0.36	+4.02	+22.63	+19.00	+34.33
UK	-0.47	-0.62	+15.04	+15.09	+15.94
EUROPE	-1.45	-1.11	+8.86	+7.97	+14.23
WORLD INDEX	+0.19	+0.69	+8.16	+9.90	+11.26

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NATIONAL AND REGIONAL MARKETS

Figures in parentheses show number of lines of stock

FRIDAY OCTOBER 20 1995

THURSDAY OCTOBER 19 1995

DOLLAR INDEX

Local currency

US

Pound

Yen

DM

Swiss

Index

Local currency

US

Pound

Yen

DM

BUSINESS LOCATIONS IN EUROPE

The importance of choosing the right site

Fierce competition increases the penalties for locating a business in the wrong place, says James Buxton

Ten years ago, a business location consultant explains, "you wouldn't have found the chief executive of a company getting involved in the detail of where to locate one of its plants or offices. Now you find chief executives want to see not only the final short-listed site, they want to stamp round all the short-listed sites."

It is a revealing illustration of the increasing importance now given to choosing the correct location for the offshoot of a business. Companies are continually making cross-border location decisions, but intensifying competition in the business world increases the penalties for locating an operation in the wrong place.

Several forces are driving companies to decide on new locations in Europe. First, the emergence from recession of the economies of the EU countries means that companies from the US and east Asia feel they need to have a presence in Europe if they do not already have one. According to John Siraut, a management consultant with Ernst & Young, US companies are internationalising earlier in their corporate life than in the past.

Second, some companies whose operations are spread over several EU member states are now concentrating them in fewer countries because of the partial completion of the European Union's single market in 1992. "This means you can service the EU from a smaller number of locations than you could in the past," says Mr Siraut. A manufacturing company may centralise its European distribution in one country, or choose to concentrate some of its support functions, such as

accounting, in one location instead of having them spread across Europe.

"It was predicted five years ago, it began happening three years ago, it's continuing but some companies are now back-off," says Wilfried Vossen, of Plant Location International, an offshoot of Price Waterhouse in Brussels. "I've come across cases where people did it because it was fashionable and came to regret it."

The third force driving the hunt for new locations is inward investment. Flows of investment into Europe from companies in the US and east Asia were \$62.4bn last year, according to the Bank for International Settlements.

This is slightly less than the peak of \$73.6bn reached in 1991 and in the following years, but far above the levels attained in the early 1980s. The figure does not count cross-border investment by one European country into another which, particularly in the case of outward investment by Germany, has been substantial. Out of 270 inward investment projects in Europe in 1993-94, 159 came from European countries.

The UK does best of all European countries in obtaining inward investment. It may currently be receiving as much as 40 per cent of all foreign direct investment coming to Europe; its recent big inward investment successes include Samsung of South Korea, and investments by Siemens of Germany, NEC and Fujitsu of Japan, and Motorola and Ford of the US (the latter through its subsidiary Jaguar).

London also continues to be viewed as the top European city in which to locate a business, according to the annual survey conducted among 500 companies for Healey & Baker, the property consultants. It was ahead of Paris, Frankfurt and Brussels on a weighted score of factors which included communications and costs, which were rated above qual-

ity of life by the executives asked.

The UK has the advantages of the English language, an extremely open business environment, relatively low labour costs and flexible employment practices. "In several other countries it's difficult to secure such things as seven days a week working," says Mr Vossen. "That has never been a problem in the UK."

However, France is improving its performance in attracting inward investment, gaining in 1994 the \$500m Mercedes/Swatch car project and a significant offshoot Daewoo of South Korea.

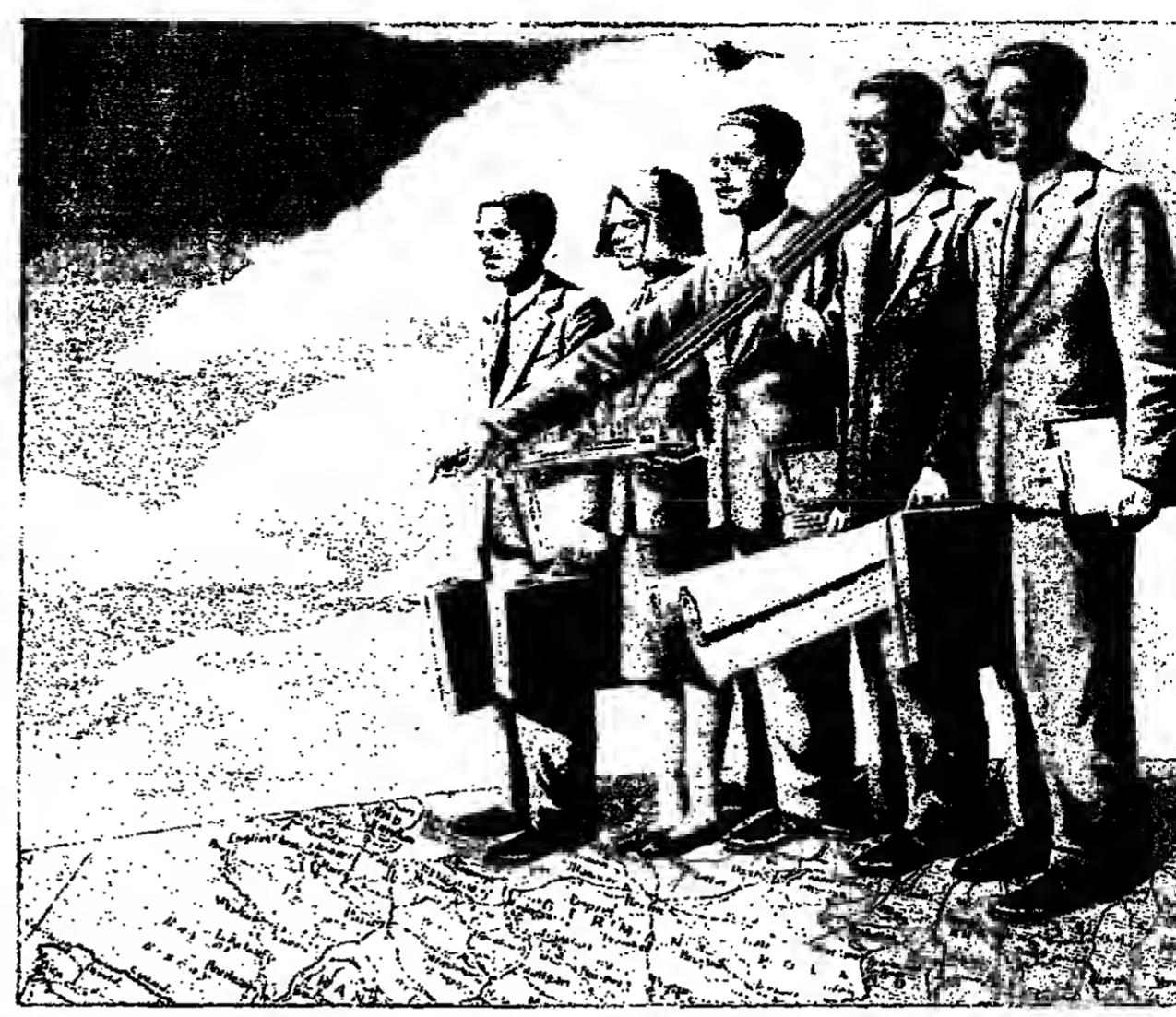
According to Mr Vossen, the French authorities are learning the UK's inward investment agencies that leading companies want large high amenity sites of which the plant itself may only occupy a small part. This desire, he says, also favours Ireland (which like the UK benefits from having the English language) but militates against the Netherlands. Belgium and Luxembourg which do not have much spare land and whose environmental consciousness - "economia", as Mr Vossen puts it - may limit their ability to meet the needs of incoming companies.

The very high costs of operating in Germany are a severe disincentive to any company wishing to locate a "mobile" investment there - a project not tied for market reasons to a particular country. German companies are investing in the UK and elsewhere partly for this reason.

Bernard Pischetsrieder, chairman of BMW which owns Rover, said this month that Britain was "the most attractive among all European locations" for car production. "This results from the structural reforms initiated in the early 1980s by [Lady] Thatcher."

Of the other leading EU countries Italy is not a strong performer in winning mobile

communications and costs, which were rated above qual-



been down-graded after some companies located there suffered bad labour relations experiences.

Meanwhile, eastern European countries are making their mark as inward investment location. The most favoured countries are Hungary, the Czech Republic and Poland, which are gaining investments thanks to their skilled workforces and labour costs which may be only one-tenth of those in Germany, where many of the investments originate.

According to Ernst & Young's publication Regions of

the New Europe there are probably more than 1,000 agencies in Europe which have "as their sole or key objective" the attraction of inward investment.

Given the "noise" these bodies may generate, it is important that companies making a location decision are "clear in their own minds on what they want to get out of the investment," says David Hadfield of Coopers & Lybrand.

Location consultants agree that the two most important considerations for companies choosing where to site a new manufacturing plant are, first,

access to the market they wish to serve, and, second, the cost and flexibility of labour. The issues of grants and incentives come lower on the list of priorities.

For many companies grants and incentives are just the icing on the cake," says Mr Siraut. "The companies that only shortlist countries which offer grants are not in the majority - a few are even put off by a hard sell on grants by an inward investment agency."

Whereas politicians often have an eye to the short-term benefits they gain from announcing big inward invest-

ment projects, companies are looking for a location that will be profitable over 25 years, Mr Siraut says.

Location consultants acknowledge that a cutthroat game of poker is often played in which big companies may use their international clout to win higher grants and other concessions. But Mr Hadfield notes that the biggest grant does not always win the day for a country trying to win investments.

Siemens, he points out, was offered larger grants by Austria than by the UK to locate its new microchip plant on

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Editorial production:
Roy Terry
Illustration: Bill Butcher
Map and graphics:
Bob Hutchinson

Austrian soil, but it chose the north-east of England because, overall, it felt most comfortable there.

Some states may need to address another trend in plant location which was identified by Mr Vossen. Projects, he says, are becoming more capital intensive. Countries such as the UK, whose incentives are designed to reward companies for the according to the number of jobs they create, may be losing out on research and development which employ small numbers of people but add value in other ways.

■ Foreign direct investment by Graham Bowley

Fight for foreign cash intensifies

Companies interested in new overseas bases are turning to developing economies

Foreign direct investment (FDI) into Europe slowed during the world recession of the 1990s as demand within the continent declined and companies in North America and Asia scaled back to address problems closer to home.

As world economic growth has recovered, so has the volume of inward investment flowing into Europe, although it is still below its peak of 1991. More and more companies, particularly from the fast-growing countries of Asia, are looking to internationalise their operations and Europe is among the preferred locations.

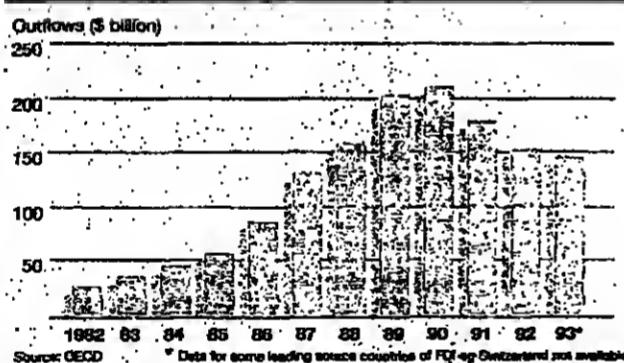
The on-going liberalisation of world economies is assisting this flow of investment. European governments, too, are playing an increasingly active role in attracting foreign investors. They face growing competition - from Asia, the Middle East and from the former communist countries, which in many cases offer an alluring low-cost base close to growing markets.

According to the Basle-based Bank for International Settlements (BIS), total inflows into Europe were around \$62.4bn last year. This is below the levels seen in previous years - \$67bn in 1993, \$72.2bn in 1992 and the 1991 peak of \$73.6bn. But it is still above the levels in the 1970s and 1980s: BIS estimates that the annual average between 1976 and 1980 was \$14.5bn, which grew to \$60.5bn between 1986 and 1990.

The resumption of FDI flows has seen a re-emergence of some of the trends that dominated before the downturn. The US, France and UK are once again the leading sources of outward FDI. According to the BIS, total FDI outflows last year were more than \$230bn, with the US contributing most to this flow with around \$60bn, followed by the UK with \$30bn. North America remains the largest contributor of direct investment into Europe, a trend that looks set to continue, despite signs that companies from other regions are increasingly seeing Europe as a base for their operations.

Within the continent, France, the UK, Belgium and Luxembourg remain the main beneficiaries of inward invest-

Direct investment abroad from OECD countries



Source: OECD * Data for some leading source countries of FDI are Standard and Poor's

anticipated, has also been marked.

According to a survey of investment patterns by Ernst and Young, the accountancy firm, 20 per cent of US investment into Europe is now going to the former communist Eastern bloc countries.

Figures published this month by the UN's Economic Commission for Europe (ECE) bear out this pattern. They show that total FDI in 15 former communist states in the region grew by 24 per cent to \$22.7bn compared with \$18.3bn at the end of 1993.

The ECE, however, notes that this is focused on a handful of economies - the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Hungary was by far the largest recipient of investment - with \$3.7bn at the end of 1993, more than twice as much as that

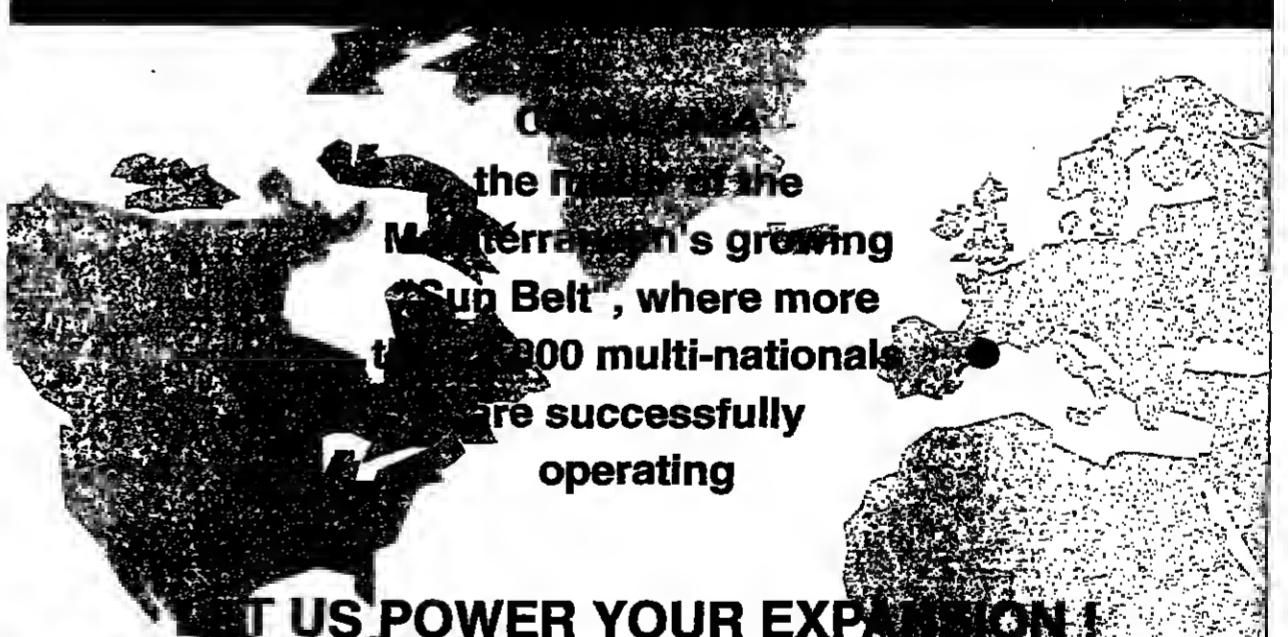
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2 BUSINESS LOCATIONS IN EUROPE: Inward investors

■ Case study: Du Pont

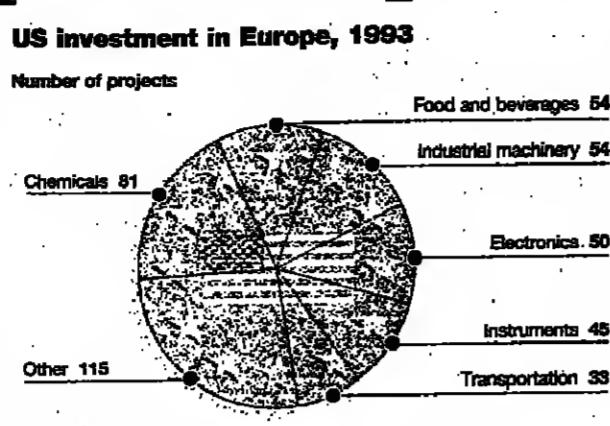
A \$1bn plant in Spain

Tom Burns looks at a decision to locate a plant where General Electric had feared to tread

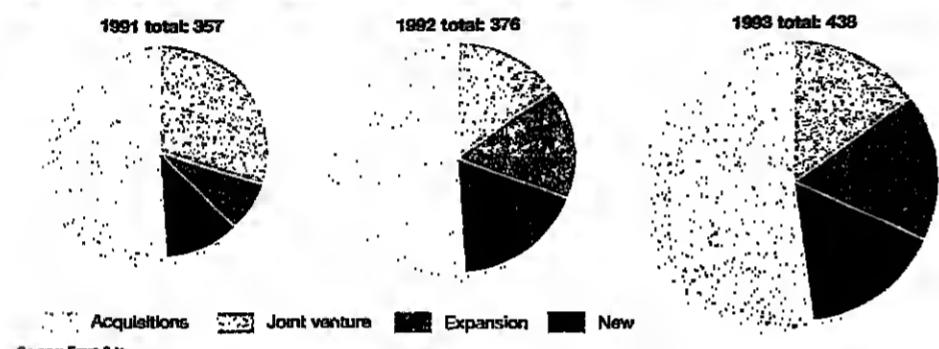
In the autumn of 1987, Luis Carlos Croissier, Spain's industry minister at the time, was eagerly awaiting a meeting with the top executives of the US corporation General Electric that would seal a significant investment by its plastics division in Asturias, northern Spain. When Jack Welch, GE's chief executive, arrived in Madrid, Mr Croissier learned to his disappointment that the deal was off.

Mr Welch had flown over the proposed location, discovered that the new plant would be surrounded by the coal mines and the heavy steel works that blight the decaying industrial landscape of Asturias and decided, on the spot, that the proposed plastics facility had to be sited elsewhere. "Mr Welch feared that Asturias would somehow contaminate GE's image and culture," Mr Croissier recalls.

GE Plastic eventually sited its plant in Cartagena, south-east Spain, and, to Mr Croissier's relief, Du Pont, the chemical giant, rushed in where Mr Welch had feared to tread. By March 1990, Ed Woolard, Du Pont's chief executive, had



Entry methods chosen by US companies in Europe



signed a letter of intent with the Spanish government to develop a greenfield site in Asturias that would initially produce Nomex, a synthetic fibre that is used in the manufacture of flame protective garments and of heat-resistant insulators and filters.

The \$1bn Du Pont plant stands in a hub, not far from Avilés, the site of a huge and mostly obsolete state-owned steel works, and time appears to have proved that there was nothing foolish about Du Pont's decision to set up in the location that GE had rejected. Visiting it earlier this month Mr Woolard said it was a "plant of the 21st Century" and a "world class performer".

The rust belt factor that worried Mr Welch never bothered Mr Woolard, for Du Pont has set up plants in northern Europe sites, such as the Dunderkirk area, that share a similar environment. The industrial culture of an area is counted as a positive factor by Du Pont and this, together with the other elements of the chemical producer's package of business location criteria, pointed firmly

in the direction of Asturias. What Asturias's industrial tradition ensures is qualified personnel rather than old-fashioned working practices. Du Pont made a painstaking selection to build up its 350-strong labour force devoting up to 100 hours of interviews per every new employee and hiring one out of an average 80 candidates for each job. The plant's staff has since developed advanced working systems based on self-organising teams that work to targets, on an absence of demarcation lines and on multi-functional responsibilities.

Asturias also offered good facilities in terms of schools, housing and leisure possibilities – outside the rust belt the area has arguably the most stunning mountain scenery in western Europe – that multi-functional responsibilities.

Far more decisive factors

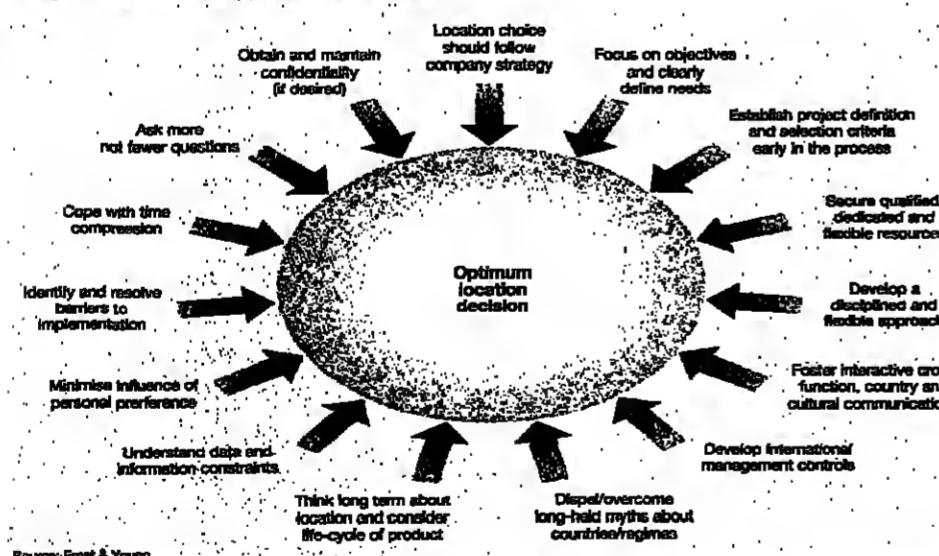
were the encouragement that Du Pont received from Spanish officials and the availability of good resources that it discovered in Asturias.

The crucial element of the backing that the US corporation obtained in Spain was the fluid and positive communications framework that it jointly established with the national government and with the local authorities. This allowed Du Pont to cope with the always baffling and occasionally contradictory sets of legal requirements and layers of bureaucracy that blight the start-ups of large production plants.

In Asturias, Du Pont discovered it had good port facilities at Avilés and at the much larger port of Gijon which has one of the best efficiency records along Spain's northern coastline. It also had abundant local water, natural gas inputs together with the possibility of

developing co-generation facilities, and double-source electricity, a vital requirement for chemical sector sites, thanks to two main transmitters to the national grid which both lay within a 20km radius.

Key location success factors



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Ringtel Electronics A Taiwanese first for Wales

Mr Fang breaks new ground

In a spotless new factory, Brian Fang, a Taiwanese businessman, is hard at work planning the start of production early next year. When he has time to glance out of his office window, he has a grandstand view of the green hills of Wales.

Mr Fang is managing director of Ringtel Electronics (UK), the first Taiwanese manufacturer in Wales and one of only a handful in Britain. Investment in the UK from east Asia has been

dominated by the Japanese, but Korean, Hong Kong and Taiwanese companies are beginning to make their mark.

Some are substantial projects: Samsung, the Korean industrial group, is committed to a £450m complex on Teesside. QPL International Holdings of Hong Kong is setting up Aszt (UK), a £42m electronics factory, in Wales.

Compared with such schemes, Ringtel is modest – a £2.45m investment and planned employment of 100 people within three years. But it is more typical of inward investment than the big headline-grabbers.

The plant will be Ringtel's European manufacturing base and will make the same telecommunication connectors and cordage as its parent, a family-owned company. Apart from one factory in Malaysia, it will be the company's only overseas facility.

The deciding factor was the factory's location, five minutes' drive from the M4

motorway between Wales and England. Nearby there is a cluster of telecom companies such as Panasonic of Japan – Mr Fang can see its plant from his window and Nortel of Canada, which means there are potential customers in the



Brian Fang: favoured the UK because he spoke English

area and a labour force with relevant skills.

More help came in the form of Mr Martin himself. As part of the Welsh investment package, he was brought in as project consultant to ensure

learning curve in Wales rises, the intention is to develop local sourcing.

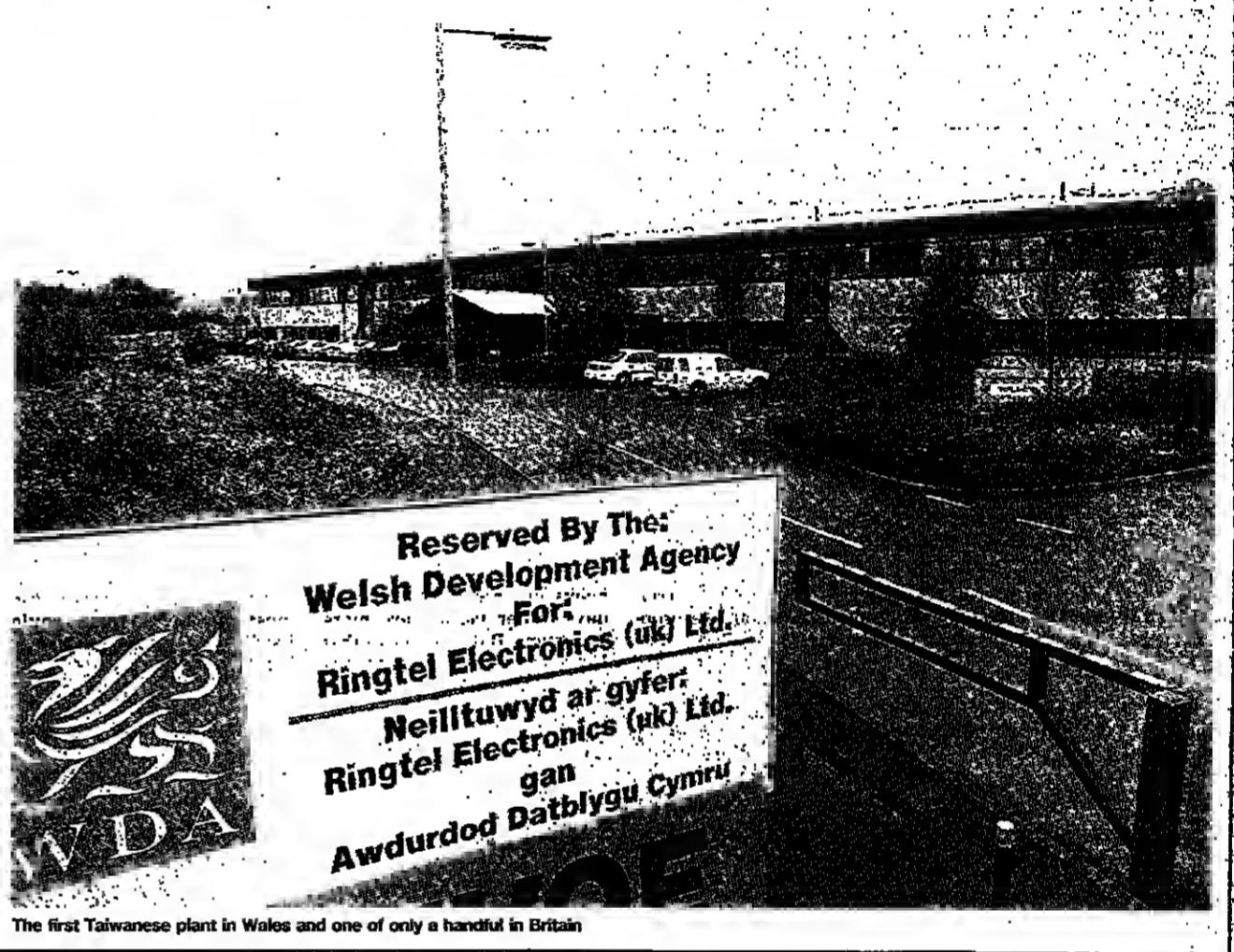
Mr Fang expects labour costs to be initially 20 per cent higher in Wales. In the Welsh factory, earnings will be similar to those in Taiwan, but for a shorter week – 37 hours, compared with 45 hours.

"The trick is to be smarter here and to produce more," says Mr Martin. "Being under one roof, there is the opportunity for labour mobility within the different processes, as long as people are adequately trained. The quality of labour is very, very important."

Mrs Elaine Jones, of the WDA, has acted as Ringtel's facilitator in Wales and the agency has helped, for example, in arranging work permits for Taiwanese engineers and in finding a school for Mr Fang's son – he and his wife have bought a house in Cardiff.

If that shows Mr Fang's commitment to Wales, another indication is his acceptance of an invitation to a different grandstand view – watching Newport rugby team play the Barbarians.

Roland Adburgham



■ Case study: Sanden

Peaceful Brittany wins Japanese company

Andrew Jack examines the reasons why some companies prefer to locate in France

For the next few months, Kotoku Monya, managing director of Sanden Manufacturing Europe, is working from temporary office space in the north-western French city of Rennes in Brittany.

But by the middle of next year he will have moved into brand new offices on a 100,000 square metre country site, called Le Quillion, on the road to the coastal town of St Malo, and will be supervising the work of some 350 staff producing compressors and air-conditioning systems for cars.

Sanden – which is initially investing about FFr350m (£370m) in its new French plant – is only one of the most recent examples of a large number of Japanese companies to invest in France over the past few years.

While US investors probably represent the single largest group into France, Japanese businesses are also among those which are well represented within the country. Companies including Canon, Hitachi, Mitsubishi, Sony, Sumitomo and Toshiba are among the better-known, but they sit alongside many smaller, more specialist businesses.

Bernard Yvetot, deputy chief of the government-sponsored Invest in France mission, says there are a number of elements which characterise the location decisions of Japanese executives which set them apart from their peers in other countries. "They tend to take much more time over a decision," he says. While the average time for companies is several months, he suggests for the Japanese the scale is normally

between one year and 18 months.

"They are very sensitive to the quality of the responsiveness they receive from the local authorities, reflecting their long-term views," he adds. "They are also more interested in the knowledge and skills of local industry than many others."

He says that they generally understand France's limited ability to offer tax incentives compared to some other countries courting inward investment, and are pleasantly surprised by the costs of operations and the level of productivity they can achieve.

A number of these factors were certainly important for Mr Monya at Sanden. The Japanese group, which generates about half of its sales in overseas markets, produces a range of engineering products including compressors, air-conditioning systems and refrigeration equipment for supermarkets and vending machines.

Around the world, Sanden has operations in Japan, but also in Texas, Mexico, Singapore, Malaysia, India, Taiwan, Indonesia and is about to open another factory in the Philippines. Within Europe, its sister company, which produces vending machines, already has a plant in Italy.

But Sanden's strength in Europe has been the sale to a large number of European car manufacturers of air-conditioning equipment, a market in which it controls more than a 50 per cent share. "This is our fourth plant, and with it Europe will become our fourth pole after Japan, Asia and America," he says.

The group already has a sales office in the UK, and had been considering European manufacturing over a number of years. Mr Monya says there was one principal reason. "It is part of our philosophy to operate close to our customers."

Local operations would allow the group to be in regular contact with purchasers and so in a position to respond quickly and flexibly to their demands. In addition, the rising value of the yen in the last few years has made exports directly from Japan extremely expensive.

Serious consideration of locations began in the middle of 1994. The UK was ruled out because most of Sanden's clients are based in continental Europe. Instead, it considered sites in France, Germany and Italy.

Mr Monya says the company weighed up about 30 different items in its calculation of where to place its factory. Among them was the political and economic stability of the countries, their infrastructure to ensure quick distribution, and the quality and cost of labour.

While labour costs were higher than in some other European countries, he says he considered this less important than the fact that potential employees were well trained and appeared to be highly productive.

He also emphasises the importance of local suppliers, because Sanden's intention is to buy as much as possible from companies in the same region, reflecting its policy of being close to customers and to suppliers. He says he liked the fact that Brittany was a relatively quiet, safe and peaceful region of the country.

But he also highlights one final factor which clinched the decision move to Brittany against other countries with greater financial incentives, and even compared with other parts of France.

"It was the support offered by the local authorities and the people in the area," he says.

Time will tell, but Sanden is optimistic that it has made the right choice. It held a groundbreaking ceremony on October

16, and plans to open its factory by the end of April next year and adjacent offices by June.

During its first phase of operations for the following three years, it expects to employ about 350 staff and aims to produce 700,000-800,000 components a year.

Beyond that, Mr Monya says the company has an option to double the size of its plant.

"We want to expand in Europe," he says.

Not all Japanese investment in France is a question of companies opening operations directly in the country, such as Sanden. Some Japanese investors buy shares directly in French companies. Other businesses form joint ventures or alliances.

For example, Unitika, a textile company, last year opened a joint operation with DMC, the French textile group. Both

hold about one third of the equity, with the rest on the stock exchange. Inésa has a factory in La Mure in the Rhône-Alpes region, making artificial silk for women's lingerie.

One director says the Japanese decided to find a partner in Europe because a large proportion of their market was to purchasers within the continent, and a local facility allowed them to shield themselves from the effects of changing in exchange rates and other factors which could have impeded their ability to expand.

He says Unitika chose France among the different EU countries largely because of concerns about distribution of its markets: the country was both well positioned for its networks, and had modern infrastructure so it could take full advantage of the location.

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4 BUSINESS LOCATIONS IN EUROPE: Country profiles

■ United Kingdom: by James Buxton

London is voted the best city again

"I've never in my business life known a stronger selling pitch than the one I make now for the UK," says Andrew Fraser, the former advertising executive who runs the Invest in Britain Bureau (IBB), the government agency which leads the UK's effort to secure inward investment.

Judging by results alone it is easy to understand Mr Fraser's bullishness. In the past year, the UK has secured a spectacular series of large manufacturing inward investment projects and is attracting at least a third of all inward investment coming into the European Union.

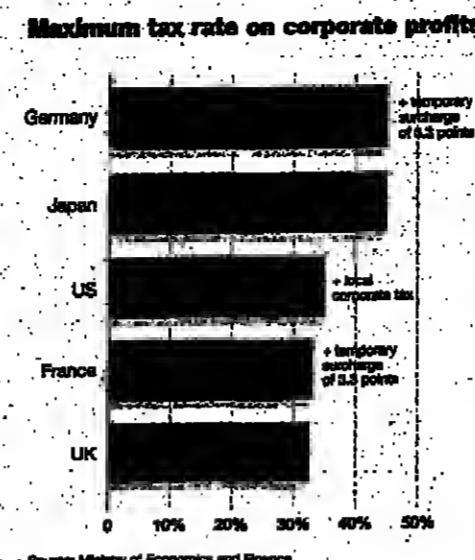
Meanwhile, London has for the fifth year been voted Europe's best city in which to locate a business, in an opinion survey of senior executives from 500 European companies. The survey put London ahead of Paris, Frankfurt and Brussels.

The UK capital came top partly because of its good communications and low costs, two of the factors which companies consider important in making location decisions.

In the past 12 months, a stream of announcements about big inward investment projects has pushed such mundane industrial stories to the



Source: BT, France Telecom, RegiCom



Source: Ministry of Economic Affairs

top of the national news and, presumably, into people's consciousness.

NEC, the Japanese electronics group, is to spend £250m on a new microprocessor plant at Livingston in Scotland. Motorola is investing a further £250m in making microprocessor plants at East Kilbride near Glasgow.

Jaguar, the luxury car maker which belongs to Ford, is to build its new saloon at Castle Bromwich, Birmingham, and

not in the US. The South Korean company Samsung recently opened the first stage of a £450m consumer goods manufacturing facility at Wixnay, Cleveland, which it announced last year. In August, Siemens of Germany decided to set up a £1.1bn microchip plant on Tyneside.

Soon afterwards, Fujitsu of Japan announced a £316m expansion of its semiconductor plant in County Durham. Nissan is spending £250m expand-

ing its Sunderland car plant. Inward investment projects announced in 1994 would create 37,000 new jobs and safeguard a further 51,000. According to the IBB, the UK's stock of inward investment has risen from £55bn in 1986 to £131bn in 1994.

The UK has 40 per cent of the stock of US and Japanese investment in the enlarged EU.

Foreign-owned companies provide 18 per cent of the UK's manufacturing jobs, 24 per

cent of its net output, 32 per cent of its manufacturing investment and about two-fifths of its manufactured exports.

The US continued in 1994 to be the largest source of new investment, followed by Germany and then Japan.

The IBB attributes the UK's

success to four main advantages: the English language, particularly important to US and Japanese companies; the labour force, not just its relatively low cost but its flexibility; the strong UK service sector, especially the extent of services available in the city of London; and the UK's welcoming attitude to foreign companies, particularly its deregulated business environment.

In the past two years there

have been changes in the way

the UK attracts inward invest-

ment.

While Scotland, Wales and Northern Ireland with their well-focused inward investment agencies, each backed by a government department, continue to win projects, other parts of Britain are becoming better organised.

Recently, the Northern

Development Company, covering

northeast England and

Cumbria, has galvanised local

authorities and enterprise bod-

ies into more effective co-operation to win projects. The urban regeneration agency English Partnerships, set up in 1993, is now playing a central role in co-ordinating efforts to meet potential investors' needs for sites, grants, labour and advice.

The recent wave of new investments announced for the north-east at the expense of, for example, Wales, may reflect the redrawing of the map of development areas and assisted areas in favour of derelict English industrial areas.

The IBB has been quietly

asserting its lead in repre-

senting the UK overseas

and pulling together the efforts

of the inward investment

agencies around the country. It

would prefer that the regional

agencies, instead of trying to

steal a march on each other,

concentrate on finding a home

for potential investors and

looking after existing ones who

may reinvest.

It sees this as a necessary

return to international

competition in which the UK is

increasingly pitted not just

against other EU countries but

against locations in south-east

Asia and in Mexico.

Despite the UK's success, a

note of caution is necessary.

Although the high level of

The best European cities in which to locate a business today

City	1993	Rank	1994	Weighted score
London	1	1	1	100
Paris	2	2	2	95
Frankfurt	3	3	3	94
Brussels	4	4	4	93
Amsterdam	5	5	5	92
Barcelona	10	7	8	91
Zurich	6	6	9	90
Milan	12	10	9	89
Madrid	16	10	9	88
Düsseldorf	7	6	10	87
Geneva	10	11	11	86
Munich	16	11	12	85
Manchester	9	11	13	84
Dublin	-	-	14	83
Berlin	14	14	15	82
Stockholm	12	14	16	81
Lisbon	15	17	17	80
Glasgow	7	17	18	79
Hamburg	16	17	19	78
Vienna	23	23	20	77
Prague	20	18	21	76
Lyon	21	17	22	75
Rome	26	27	23	74
Budapest	19	22	24	73
Copenhagen	22	24	25	72
Warsaw	23	17	26	71
Turin	25	27	26	70
Oslo	-	26	28	69
Athens	26	25	23	68
Moscow	23	29	30	67

Based on a telephone survey in June 1995 by The Harris Research Centre of 2000 managers in 20 European countries. The sample was systematically selected from Europe's 50,000 largest companies. Those interviewed were senior managers or company directors, with responsibility for location.

Source: The European Cities Survey 1995, Harris Interactive.

remembered that not all the vast sums of money trumpet-ridden, they often generate less spin-off for local businesses, either in manufacturing or professional services, than do indigenous companies.

And it needs to be

The Netherlands

Call centres create jobs

The Netherlands' attempts to sell itself to foreign investors as an attractive production and manufacturing site received a big boost in the summer when Eastman Chemical of the US announced that it had decided to build two plastic factories in the port of Rotterdam.

The planned investment, costing a combined F1.500m (£300m), is expected to bolster Dutch efforts to convince foreign companies that the country is perfectly suited to be a manufacturing location - and not just a site for non-manufacturing operations, such as distribution, warehousing and European head offices.

Indeed, the Netherlands is regularly at pains to emphasise that, despite its reputation as a logistical centre in Europe, it does not cater simply to service industries.

So far, the country's biggest foreign investment in manufacturing is the multibillion-guilder complex built by Fuji Photo Film of Japan in Tilburg, in the southern Netherlands, since the early 1980s. The site, containing three factories, is believed to be the largest foreign investment by any Japanese company outside the automotive sector.

Eastman's initial investment plans call for the construction of a polyethylene terephthalate (PET) resin plant, as well as a facility for producing a key PET raw material, purified terephthalic acid (PTA).

The US company has said other plants may also be built at the Rotterdam site. William Gerwood, head of Eastman's European operations, said Rotterdam would serve as the company's "base case" when making comparisons within Europe for sites for future expansion. "Rotterdam will be pretty competitive," he said.

The plants are the second Eastman-related coup pulled off by the Netherlands so far in the 1990s. Earlier, the US chemicals company chose The Hague as its headquarters and service centre for Europe, Middle East and Africa.

The two Eastman projects - manufacturing in Rotterdam and administration in The Hague - underline the two types of foreign investment the Netherlands has aimed to win over the past few decades. More recently, it has begun to promote a third type of operation - "call centres" or pan-European customer information offices run from the Netherlands. The Dutch campaign makes much of the country's relatively cheap telecommunication costs and the availability of staff who can speak several languages.

The growing importance of call centres, typically used by computer companies to answer customers' queries, is slowly filtering through into government statistics. In 1994, the value of incoming foreign investment fell to F1.651m from F1.130m the

year before. But the number of jobs created by new foreign investors rose to more than 3,500 from around 2,400 in 1993.

The government, which cautions against interpreting trends in one year's figures, attributes the shift partly to the new phenomenon, since the call centres are

labour-intensive rather than capital-intensive. "Call centres employing hundreds of people are no longer an exception," Ms Anneke van Dok, foreign trade minister, said when unveiling the 1994 figures earlier this year.

Labour and labour-related issues are often regarded as the weak spots in the Netherlands' otherwise attractive climate for foreign investment. Transport links are excellent, thanks to Amsterdam's Schiphol Airport and the port of Rotterdam.

At a seminar on the Dutch budget for business people, many of them from abroad, Fred Lemmens, director of the Netherlands Christian Employers' Federation (NCW), said, "Labour costs are high, but labour productivity is high, too."

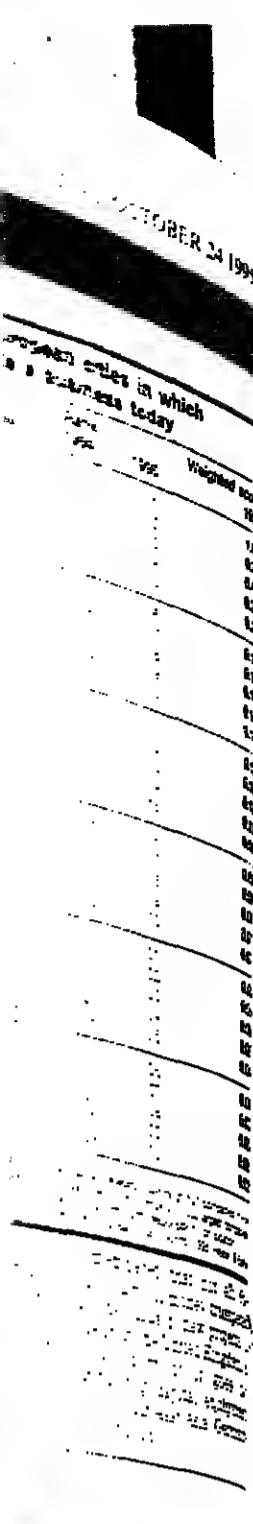
He said some improvements in labour conditions were being made, citing the sharp decline in absenteeism which followed changes in the way sickness benefits are paid. The government had also made fundamental reforms in the disability insurance scheme, he noted.

The Netherlands Foreign Investment Agency, charged with attracting foreign investment to the country, concedes that labour-intensive projects with a low-level of initial investment will tend to go to other countries, usually in eastern Europe or even southern Europe. But it argues that the Netherlands is able to hold its ground when it comes to large-scale capital investments in high-skill sectors, such as chemical and bio-technology, where education levels are crucially important.

Ronald van de Krol

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■ Italy by David Lane

Outsiders get a cool reception

Recent months have been a hard test of patience for businessmen travelling by air within and to and from Italy. Delayed and cancelled flights have wreaked havoc on schedules, as, first, pilots of the Alitalia national airline and then air traffic controllers struck over pay demands. And while anarchy held sway at the airports, businessmen trying to contact offices and homes probably wished that they were dealing with a more efficient telephone system.

Italy does not have a good reputation for services and infrastructure. Neither during the 1960s, as the country's leaders lurched from one crisis to another, have politics received kind treatment from the media. Five different prime ministers have tenanted the Palazzo Chigi during the past 3½ years, and there are signs that a sixth will soon be in office. The corruption scandals that emerged in early 1992 continue to reverberate and political uncertainty hardly affects the lira. Business people looking at Italy as a potential location for new ventures or with a view to expanding existing operations see instability and a situation that often appears incomprehensible.

Moreover, foreign companies

could be forgiven for believing that their presence is not really wanted. Italian officials and business people admit that there is a reluctance to accept outsiders. The notion that inward investment equals economic imperialism, often attributed to Italy's strong and vocal political left wing, has been hard to eradicate.

Aversion to foreigners is not confined to trade union leaders and left-wing politicians, however. Italy's own business people have been culpable. Many consider that automobile-maker Fiat did the country a disservice by preventing Ford from acquiring Alfa Romeo in 1984. The failure of the joint venture between Alfa Romeo and Nissan, established at the end of the 1970s, was also a setback for those who believe that greater internationalisation means welcoming more foreigners to Italy.

With a population of 57m, its position in the centre of the Mediterranean and membership of the European Union, Italy cannot be and has not been forgotten as a business location by foreigners. Indeed, a study published by the industrialists' confederation Confindustria in June, shows that there were 1,474 Italian manufacturing companies in which

foreigners had equity interests, either controlling or minority stakes, at the beginning of 1994. They provided jobs for nearly 500,000 people.

Confindustria's study shows that almost 235,000 jobs were in sectors with high economies of scale; food processing, household electrical appliances, primary chemicals, tyres and rubber products, and soaps, detergents and cosmetics. Although total numbers are low compared with other European countries, the spread of foreign interests in Italy is wide. Manufacturing companies in sectors of high technological intensity that have foreign ownership or equity stakes gave employment to nearly 126,000 in 1994. Pharmaceuticals headed the list with

41,300, followed by electronics and telecommunications with 38,200.

The US is the leading investor country. The 338 manufacturing companies with US parents or minority shareholders employed 151,700 at the beginning of 1994. The US chamber of commerce in Milan says that electronics, chemicals and pharmaceuticals are the main sectors. Manufacturing companies account, however, for less than half the total number of US concerns, whose overall investment in the chamber of commerce estimates at about \$15bn. There are around 250 US companies in services and finance and a similar number of sales operations.

New companies continue to arrive. Through its British sub-

sidiary, Canada's Eicon Technology, a data communications hardware and software company, will establish an Italian operation at the beginning of next year. But, like many foreign companies in Italy, it will be a sales offshoot and modest in size. This is the problem that some Italian economists and businessmen are now beginning to recognise: Italy is failing to attract large new enterprises.

Much of foreign investment over recent years has been through acquisition of Italian companies. Confindustria's figures show that greenfield investments accounted for only 206,400 jobs in Italian manufacturing companies with foreign shareholders, just 14,800 being created between 1981 and 1993.

The limited level of Japanese investment, only 700 new jobs between 1982 and 1994, confirms Italy's marginal position compared to other European countries.

Apart from the aversion factor, foreign investment is obstructed by the fragmented and uncertain official framework for attracting business to Italy. Two ministries are involved in providing incentives, the industry ministry for small and medium-sized enterprises and the budget ministry

for large companies. Italy's regional authorities also give incentives. Officials say that incentives legislation and administration, following the termination of special funding for the southern *mezzogiorno* regions, has not yet been fully settled.

Uncertainty over incentives is not new and is probably not as large a problem as Italy's failure to project an attractive image to potential investors.

In addition to the budget and

industry ministries, a third, the foreign trade ministry, whose value is increasingly questioned, is involved in the task of tempting foreigners to locate in Italy. And the Istituto delle Promozioni Industriali (industrial promotion institute), which is overseen by the industry ministry, also plays a part.

If everybody were to sing the same tune, Italy might do better in attracting investors.

BUSINESS LOCATIONS IN EUROPE: Country profiles 5



Milan: foreigners have a share in 1,474 Italian manufacturing companies

Italian manufacturing companies with foreign shareholders (at January 1, 1994)

Country	Company	Employees
US	338	151,731
France	254	94,784
Germany	208	55,644
Sweden	51	44,622
UK	148	38,170
Japan	53	19,284
Others	215	55,007
Total	1,474	497,126

Source: Confindustria

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Austria

Gateway to the new democracies

Last August, Villach lost a close race against Newcastle as the location for Siemens's new microchip plant. But the feeling of disappointment remained muted. The fact that the southern Austrian town, where Siemens already operates a chip factory, came as close to winning the coveted prize speaks well for the qualities of the country as an investment location.

They include a highly skilled labour force, good infrastructure, and decades of macroeconomic stability. The disadvantages are high labour costs, strong trade unions and a plethora of labour regulations putting Austria in the category of high-cost countries.

The average industrial wage is Sch113 (\$11), but a series of fringe benefits required by law doubles the actual labour costs for

apprentice system that trains some of the best skilled workers anywhere in the world.

The geographical location is a mixed blessing. For decades, Austria was on the eastern edge of the capitalist world and remains quite far from the main business centres in western Europe. Still, the opening of the east has made Vienna an attractive gateway to the new democracies and has attracted new businesses. Road and train links are good, but rapid train lines are still years away.

Vienna's airport is growing quickly and the national airline, AUA, has established one of the best flight networks to the east. Telecommunication costs are high, but are slowly coming down. The postal service has a monopoly on all services.



Vienna: there are strict laws governing shop trading hours in Austria

employers. Most workers are organised in trade unions, and the Betriebsrat (employee council) has extensive rights in every large company. Weekends are generally work-free, and the unions have so far resisted the move toward flexible work hours that are common in other countries.

The most obvious example of the rigidity of conditions in Austria is the very strict shop-closing laws, which force all stores to close at 6.30 pm on weekdays and at 1 pm on most Saturdays. Sunday shopping is unheard of.

Driven by a high level of ecological consciousness, Austria has also tightened its environmental regulations in recent years. This has hurt the paper industry and other low-tech sectors, but may have accelerated structural changes in the economy. The strong trade unions and the culture of dialogue in Austrian business make relations between employers and workers the best in Europe.

Strikes are virtually unknown, and wage negotiations have been a civil affair even in tough times. On average, labour costs are 10 to 20 per cent lower in Austria than in neighbouring Germany, but the quality of the work force is equal. Like Germany, Austria has an

and the privatisation is held back by political resistance. A growing problem for some investors is Austria's tight immigration laws, which make it difficult to receive work permits even for highly skilled employees who do not come from an EU country.

Austria's entry into the European Union this year has helped to attract new foreign investments, even though the right to pay subsidies is now restricted by European regulations. The only region eligible for "Target One" subsidies by the EU is the eastern-most province of Burgenland. Some Swiss companies have relocated plants to western Austria.

Austrian government officials are particularly proud of the macroeconomic conditions. Inflation is 2.2 per cent, unemployment is 4 per cent, and the Austrian schilling has remained pegged to the German mark for decades. As other European currencies depreciated against the mark, however, Austria's export industry has been struggling to remain competitive.

Austria is also lagging other industrial countries in research and development outlays, which currently stand at 1.6 per cent of GDP.

Eric Frey

6 BUSINESS LOCATIONS IN EUROPE: Country profiles

■ Portugal: by Peter Wise

Change of brand image wanted

Portuguese workers earn, on average, six times less than their German counterparts

Average wages that are less than a quarter of the European Union average and more than \$1 an hour below those in the developing economies of Asia might sound like a good selling point for Portugal's efforts to attract foreign investment. But officials rarely breathe a word about them.

A far better advertisement for Portugal was the decision by Grundig, the German consumer electronics manufacturer, to establish its worldwide research and development unit for audio equipment in the northern town of Braga.

The Portuguese Institute for Investment, Trade, Tourism (IICP), which promotes Portugal as a business location, is eloquent in how Junkers, part of Germany's Bosch group, has set up an international research and development cen-

tre for gas water heaters in the Atlantic port of Aveiro.

But it does not press home that Portuguese workers earn, on average, six times less than their German counterparts. The reticence reflects an endeavour to market a new profile for Portugal - the national equivalent of a change of brand image, from a low-cost, low-quality staple to a sophisticated, premium product.

Portugal wants to leave behind the image of being a European base for low-wage, high-volume, unskilled manufacture of cheap textiles, clothing and shoes.

In its place, officials hope to create a new perception of the country as a developed economy offering the technological capacity and workforce qualifications for high-value-added production.

The economy remains dependent on traditional sectors such as shoes and clothing. The textile industry, for example, employs 20 per cent of the industrial workforce and accounted for 18.2 per cent of total export earnings in 1994.

But Portugal sees no future

in competing on a basis of low wages, low prices and high volume with companies in Asia and North Africa that have even lower costs and are gaining greater access to European markets as a result of the reformulation of the General Agreement on Tariffs and Trade.

Portugal may be lagging behind competing regions in incentives

"Being invaded by European shoe manufacturers who move to Asia after a couple of years is clearly not the way forward for Portugal," says Carlos Loureiro, a Lisbon-based partner with consultants Arthur Andersen.

"It is not in the interest of long-term development to place an emphasis on cheap labour," Mr Loureiro added.

As a result, it is Portugal's

science and technology parks, research centres and bio-technology institutes that are being promoted.

High levels of technological proficiency are unquestionably achieved in Portugal. "Technicians and engineers here are every bit as qualified and competent as their German counterparts and they have a great capacity for creativity and innovation," says Hermann Birg, president of the Portuguese-German Chamber of Commerce.

But technological prowess is a relatively scarce and, consequently, expensive resource. "Portugal produces excellent researchers but they are in short supply and command high salaries," says Mr Loureiro.

"We are in a position of having to import scientists from Russia and other former communist countries," he added.

This is a revealing indication of one of the most vulnerable aspects of Portugal's efforts to shift from low-cost manufacturing to production with a high technological input.

Attempting to upgrade

industry in this way means that Portugal is no longer competing for investment with the developing world but with central and eastern Europe.

The change in comparisons is a clear disadvantage for Portugal as a business location.

Countries such as Poland, Hungary and the Czech Republic are much nearer to the main European markets; workforces are better educated and more technically qualified, but wages and other costs are lower.

Portuguese companies are also growing resigned to the likelihood that EU funds, which have played such an important part in the country's recent development, will be largely diverted to central and eastern Europe when the seven-year Delors II package runs out in 1999.

Delays in implementing the present package, first by the EU and then in Portugal, already mean that "two out of seven critical years for stimulating investment have been lost," says Mr Loureiro. Portugal is today forced to be lagging behind competing regions in

Country or area	Hourly cost of employing labour			
	Average hourly compensation (including non-wage costs) in \$ and local currencies	1985	1994	
	\$	Local	\$	Local
Austria	7.58	156.75	21.73	247.83
Belgium	8.97	532.39	22.97	787.67
Denmark	8.13	86.18	20.44	129.93
Finland	8.16	50.56	18.39	88.87
France	7.52	67.49	17.04	94.45
Germany ¹	8.80	28.83	27.31	44.29
Greece ²	3.66	506.00	6.94	1,591.00
Ireland ³	5.92	5.55	12.16	8.20
Italy	7.63	14,563.00	16.16	26,041.00
Luxembourg ⁴	7.72	456.00	18.49	640.00
Netherlands	8.75	29.04	20.91	38.03
Portugal	1.53	263.37	4.57	758.97
Spain	4.86	792.00	11.45	1,533.00
Sweden	9.66	83.12	18.81	145.11
UK	6.27	4.84	13.82	8.88
Trade-weighted measures				
Western Europe	8.06	19.73		
European Union	7.88	18.47		
US	13.01	17.10		
Asian NIEs	1.85	5.77		

1 Former West Germany; 2 1993 data only

Source: US Department of Labor

Spain and Ireland in the incentives it offers investors.

However, large projects above £55bn (£33m), which require for contractual negotiations with the government, continue to offer highly attractive incentives. Portuguese respond also offer political stability and social peace.

As transport and telecommunication infrastructures develop, some of Portugal's

the motivation of Portuguese employees. It is difficult to readjust to the lower levels of drive and energy that are common elsewhere," says Mr Birg, who is also managing director of Bosch's operations in Portugal.

"When this is allied to the organisational and management skills of multinational companies, the result is excellence," Mr Birg added.

■ Spain: by Tom Burns

Top two cities move up the approval ratings

Madrid and Barcelona are ranked surprisingly highly by top executives

On paper, Madrid and Barcelona win surprising vote of confidence in the annual top European business city chart - produced by Healey and Baker, the UK real estate group, based on the views of 500 senior executives - Barcelona has this year moved to sixth place from seventh in 1994 and 10th in 1993.

Madrid, which was 16th in 1994 and 10th last year, is this year ninth. The rankings place Barcelona ahead of Zurich and Milan, and Madrid in front of

standard and that big business culture in Spain, which has few large domestic corporations, is poorly developed.

A decade ago many hoped for an improved profile. There was talk, in the 1980s, of Spain as a centre for a southern European axis along the Mediterranean basin from Milan to Malaga. "This axis idea kept coming up at meetings in Brussels," says Jose Joaquin Puig de la Bellacasa, of Richard Ellis' Spanish subsidiary. "Nowadays it's a very old story and nobody mentions it."

While the going was good, it was generally agreed that Barcelona had the edge over Marseilles and possibly over Milan. There was also a school of thought that championed Madrid as an equidistant office

corporations as Spain's capital and therefore the home of the central administration.

Between them, the two cities have virtually carved up Spain's big businesses taking market with Madrid taking the large share. "By comparison with European standards, there is a far greater concentration on Madrid and Barcelona than there ought to be," says Roger Cooke, chief executive of Healey and Baker in Spain. "This will begin to change but not soon nor by very much."

Valencia, Spain's third largest city, is, for example, a victim of such power sharing because of its relative proximity to Barcelona, and Zaragoza, a favoured centre for testing and launching products for the domestic market, is another. Companies prefer to be on the outskirts of Madrid and Barcelona than in Zaragoza, half way between the two big cities.

Elsewhere in Spain the attractions are limited. Seville, Spain's fourth largest city and the capital of the southern Andalucia region, has failed to take off as a business centre and Bilbao, once the hub of the industrial north, continues to decline.

Excitement over Seville was fuelled by the massive investment, including a high speed train link with Madrid that accompanied the city's Expo '92. Recesssion and the fading dream of a southern European axis has, however, dashed any hopes Seville might have entertained of reaping immediate benefits from such global exposure. If Seville has slipped back into its traditional inertia, Bilbao, a solid commercial city that once rivalled Barcelona as a business capital, has another drain on its vitality. For years the big Basque town has been studiously avoided as a corporate location centre because of the violent nature of local politics.

"The fear of political terrorism in Bilbao may be more imagined than real but it exists nonetheless and no multinational is going to go there," said a Madrid businessman.

The debate focuses on Madrid and Barcelona, with Madrid, for the most part, a service-driven market, and Barcelona largely industry-driven.

Barcelona's industrial and manufacturing base makes for a more stable property market.

Madrid's leaning towards services has traditionally made it a more volatile property market, although it exercises a powerful attraction for all big

headquarters for businesses whose interests might embrace Portugal and southern France.

Such upbeat times might return but the business location debate centres on where to set up national HQ's to serve the home-based market.

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■ Locating beyond Europe: by Michael Cassell

A shift to broader global horizons

As costs rise at home, companies are looking beyond the EU for cheaper production centres

First, the good news. After a lull in activity caused by international recession and falling corporate profitability, the tide of inward manufacturing investment into the European Union is again rising.

The less welcome news is that, simultaneously, increasing numbers of EU-based companies are looking beyond the boundaries of their own marketplace in search of new manufacturing locations.

The search to establish external operations is being driven by the pressure to maintain global competitiveness in the face of mounting evidence that much of Europe, already experiencing a falling share of world trade, risks pricing itself out of the reckoning still further.

European industrial giants such as Mercedes-Benz, the German luxury car and truck manufacturer, recently announced a \$400m investment enabling it to manufacture small cars in Brazil. The decision is the latest in a series of cost-cutting measures by the company intended to establish production centres away from Germany, where non-wage costs are becoming an increasing burden in the struggle to remain competitive. Wage costs, too, have been rising fast this year, sharply pushing up German unemployment levels.

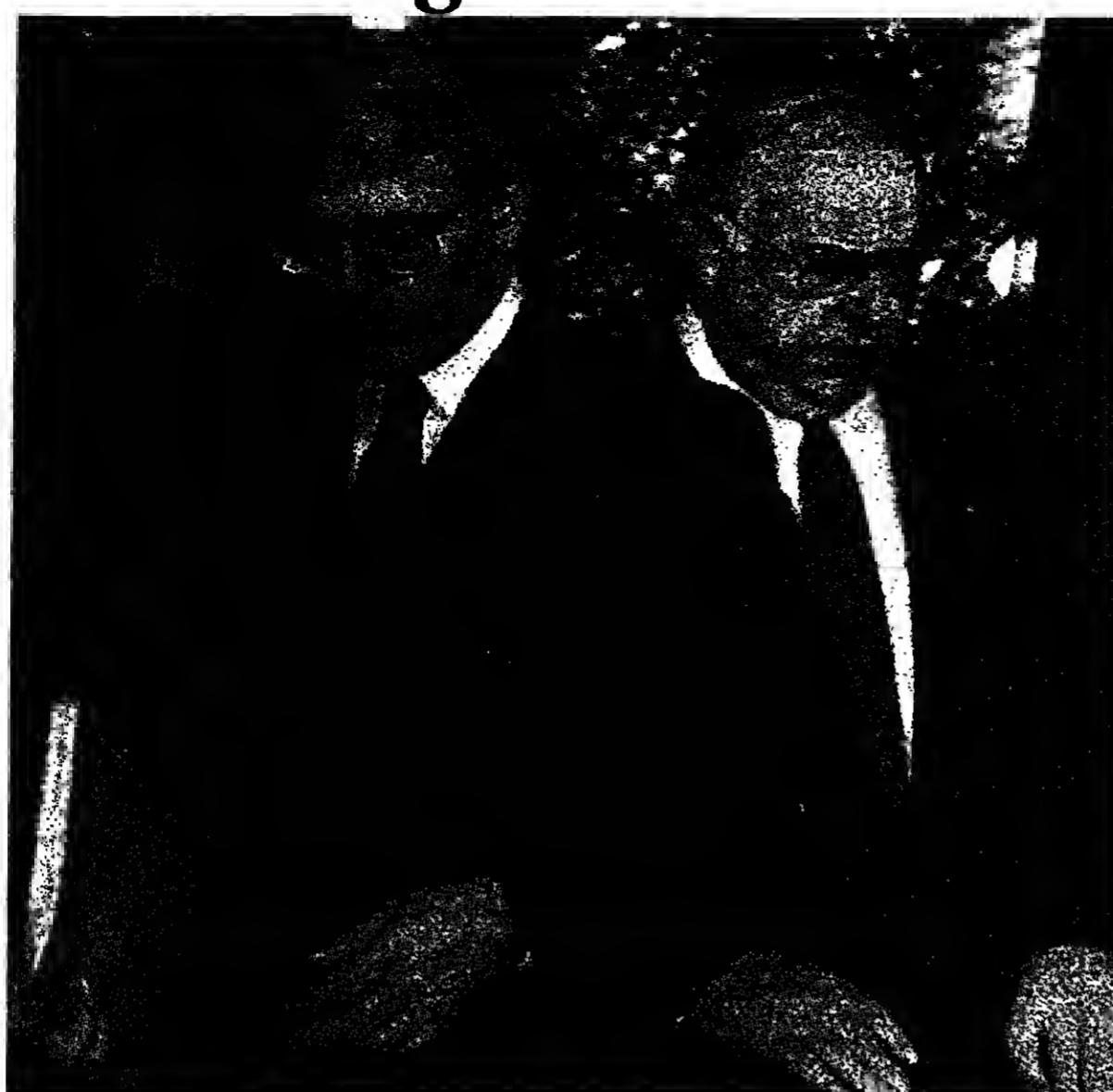
Daimler-Benz, the parent of Mercedes-Benz, has gone as far as to publicly contemplate a future in which the car company is no longer necessarily based in Germany.

The roll-call of companies seeking to cut production costs by seeking low-wage manufacturing centres beyond western Europe has been steadily lengthening. In September, Morgan Crucible, the UK materials group which is one of the world's largest suppliers of industrial carbons and ceramics, said it intended to move output from the Netherlands, France and Belgium to plants in China, Vietnam, Hungary and the Czech Republic.

Morgan Crucible highlighted the wide and growing disparity in labour costs facing international manufacturing companies. It pointed out that while average labour costs in Germany had reached \$26 an hour in Germany, the company was paying \$1 a day to workers at its Shanghai plant.

Among other companies bowing to competitive cost pressures are British Polythene Industries, which earlier this year had to move production from Britain to China in order to retain its share of the international carrier bag market. Philips, the Dutch consumer electronics group, has already pointed to cheaper wage costs as a factor behind its expansion in Asia and CarmaudMetalBox, the French packaging company, has suggested it may pursue a similar strategy.

Increasing numbers of companies regard Europe as an expensive, inflexible operational base, in which the fight to remain competitive in international markets is being hampered by over-regulation and soaring social costs. According to the critics, protecting and enhancing the conditions of those in work - being harmonised upwards to match the most generous available among member states - has wrongly been given priority over the need to find jobs for the EU's 20m unemployed. Europe's dilemma is compounded



John Major and Helmut Kohl set up a group of Anglo-German business people to study competitive conditions in the European Union

because manufacturing investment has never been more mobile or had so many choices of location. Not only do growing numbers of Asia-Pacific markets, for example, offer lower labour costs but the level of technical skills is also rapidly improving; manufacturers can now contemplate establishing production facilities in countries previously only capable of the most basic manufacturing activities.

To add to the attractions of the developing markets, consumer spending is rising, offering manufacturers new opportunities in markets no longer sheltering behind protective barriers.

Elements of the European business community have become increasingly anxious to see a shift in EU policy which recognises the changing realities and which directly addresses the problem of over-regulation and also aims to reduce the flow of burdensome legislation.

Earlier this year, an Anglo-German group of businessmen set up by John Major, the British prime minister, and Chancellor Helmut Kohl, said an urgent programme of deregulation was required "to stem the slow bleeding of Europe's economic lifeblood". The businessmen called for a reduction in labour market legislation, the appointment of a commissioner responsible for deregulation and the repeal of a number of directives which they claimed made EU companies less competitive.

Europe's politicians have been giving fresh emphasis to the question of competitiveness, launching in 1993 a white

paper on growth, competitiveness and employment which was subsequently translated into a five-point plan of action for national governments.

The plan highlighted the need to reduce non-wage labour costs, introduce greater flexibility in organising jobs, invest in better vocational training and target help to the young and long-term unemployed.

Most EU governments are seeking, with varying degrees of success and enthusiasm, to make their labour market strategies less rigid via a programme of phased deregulation. Initiatives range from a shorter working week and cuts in overtime to encouraging the long-term unemployed to take low-paid jobs.

Progress, however, is proving slow. While the white paper committed the EU to creating a net 15m new jobs by the year 2000, no significant fall in the total number out of work is now seen before the middle of 1997. Employment policy, say the critics, has become bureaucratic, centralised and inflexible. Combined with rising real incomes and relatively generous welfare benefits, the result is high unemployment.

In February, the European Commission announced the setting up of a 13-strong board of business, economic and trade union experts to advise the EU on how to make its industry more competitive. The competitiveness advisory group, part of the EU's effort to create jobs, made its first report to the Cannes summit in June.

Summit leaders were told that with

out radical measures to overhaul education and training, accelerate the break-up of national monopolies and the completion of the single market, EU economies would continue to decline relative to the US and Japan.

But while the latest political rhetoric appears to demonstrate that Europe's political masters are taking the message on board, business complains that action is too little, too slow and sometimes contradictory. The Commission's recently declared determination to press ahead with better conditions for the expanding army of part-time workers is cited as evidence that the EU remains more concerned about protecting the conditions of the employed than in creating new jobs.

Those who believe that social measures are jeopardising the ability of EU companies to compete effectively, point to the success the UK has achieved in attracting more than 40 per cent of all recent US and Japanese inward investment into Europe. The reasons, they claim, include the lowest non-wage social costs in the EU and a deregulated labour market which allows employers the maximum freedom in dictating employment conditions. Talk of signing up the social chapter is portrayed as a damaging, rather than helpful, step.

Others vehemently disagree, claim that the "burdens" of the social chapter have been wildly exaggerated and say that the EU stands for nothing if not the universal availability of decent working conditions and high levels of social provision.

Greece

Action to help investors

Greece's hopes of becoming a business centre for south-east Europe are based on an ambitious EU-funded programme for modernising infrastructure and optimism about its Balkan neighbours' progress towards a market economy.

An Ecu1.6bn (\$200m) aid package from Brussels includes financing to upgrade main roads to motorway standard, modernise the rail system and expand facilities at ports, particularly in northern Greece.

"There is a market of more than 60m in the Balkans, before you start looking at Ukraine. Greece is a good base from which to enter these markets," says Professor Louka Katseli, the government's special adviser on inward investment.

The northern city of

Thessaloniki cannot resume its 19th century role as a hub for Balkan trade until the conflict in Bosnia is settled. Nonetheless, its port is an important outlet for goods produced in eastern Europe's "southern tier" - Romania, Bulgaria, and now that relations with Greece have been restored, the former Yugoslav republic of Macedonia.

As the home of the newly-established Black Sea Development Bank, which aims at boosting trade and

investment among 16 countries in the region, Thessaloniki also looks forward to offering financial services to member states.

With easily accessible beaches, restaurants rivalling those of Istanbul and a rich archaeological heritage, Thessaloniki scores highly on quality of life, attracting an increasing number of visitors.

Meanwhile, Athens is trying to re-establish its credentials as an international business location. Advantages such as climate and its position midway between European and Middle East markets are offset by its overcrowded international airport, poor urban transport system, inadequate telecommunications and the "nefes", an atmospheric pollution cloud that hangs over the city in still weather.

By the end of the century, Athens will have a new airport capable of handling 15m passengers yearly, almost double the number of visitors that fly into the capital at present. Construction is due to start in January on a site east of Athens to be linked with the city by a new toll highway. The Athens underground railway is being extended with the addition of two new lines crossing the city centre.

More purpose-built office buildings are available and the airport development will see the construction of Athens' first business park.

Mr Matthew Purser of Lambert Smith Hampton, the consultant surveyors, says: "There is no shortage of good-quality space at monthly rents of around Drs.000-6,000 per square metre."

Foreign companies complain about poor service from the state telecommunications monopoly, bureaucratic delays in obtaining licences and permits, as well as problems in remitting earnings and royalty payments, despite the full liberalisation of capital movement last year.

The government is trying to remedy this by setting up a "one-stop-shop" to assist both local and overseas investors, which is expected to open its doors in January. The new Hellenic Centre for Investment and Business Co-operation, Ekdex, will help companies planning to invest over Dr1bn (\$4m) by providing a project account manager to obtain up to 40 approvals needed from different government services.

Kerin Hope

Cyprus

Tax-incentive island

Cyprus is not only a popular sun-and-sea destination for tourists from northern Europe, but a comfortable and efficient base from which to oversee operations in areas as diverse as Russia, Syria and Iraq.

But while the latest political rhetoric appears to demonstrate that Europe's political masters are taking the message on board, business complains that action is too little, too slow and sometimes contradictory. The Commission's recently declared determination to press ahead with better conditions for the expanding army of part-time workers is cited as evidence that the EU remains more concerned about protecting the conditions of the employed than in creating new jobs.

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Greek Cypriot officials describe the republic of Cyprus as a "tax-incentive country and not a tax haven". But a recent survey by the Cyprus Offshore Business Association says that favourable tax arrangements are the main reason why almost 20,000 companies have registered under Cyprus' offshore operations law.

Offshore companies on Cyprus benefit from tax exemptions on office equipment and company cars as well as lower operating costs than in other southern European countries.

Expatriate employees enjoy

an income tax ceiling of 20 per cent and can buy cars and household goods duty-free.

Moreover, Cyprus has signed almost 30 treaties on avoiding double taxation, including agreements with ex-communist countries in eastern Europe, Kyriakos Rialas, of Capital Intelligence, the international credit rating agency, says: "These agreements make tax planning much easier and are important in encouraging companies to set up here."

While most offshore companies are brass-plate operations, about 1,000 organisations, including shipping companies, banks, credit rating agencies and multinational companies are active in Nicosia, the capital, and the port city of Limassol.

Syros Stavron of the Central bank, which supervises offshore activity, says: "Our banking and legal systems and our accountancy are based on British rules. This helps multinationals feel confident about setting up here."

Offices in Cyprus are unpretentious by comparison with northern Europe but

cost less than anywhere else in the eastern Mediterranean, with monthly rents at around C24 (\$1.8) per square metre in the centre of Nicosia or Limassol.

The Cypriots are proud of having one of the world's best-educated work forces, with a high proportion of graduates from UK and US universities. There is no shortage of Russian speakers either, thanks to a strong communist tradition in the island's trade union.

In addition to its efficient telecommunications, Cyprus has the advantage of being in a time zone that spans the working day in south-east Asia, Europe and the US.

Mr Stavron says: "You can talk to Tokyo and Hong Kong when you come in, Frankfurt during the day and New York before you go home."

Companies say they have little difficulty persuading employees to move to Cyprus.

Kerin Hope

■ Ireland: by John Murray Brown

Moving nearer to Europe

Multinational companies have become vital to the health of the economy

Ireland today provides proof that it is not just the countries at the heart of the European single market that offer attractive locations for foreign investors. Indeed, Ireland's success as a business location has done more than anything to bring it closer to its more prosperous neighbours in the European Union.

The multinationals have become vital to the health of the economy, accounting for 75 per cent of manufacturing exports, 55 per cent of manufacturing output and 45 per cent of manufacturing employment. With the lowest corporate tax rates in the EU, a generous grant system and a flexible approval procedure, as well as a "green" working environment - something many foreign executives now put near the top of their priorities - Ireland has done much to overcome its peripheral location.

The policy has been one of the country's great success stories. This month the accountants Coopers & Lybrand and Corporate Locations nominated the Industrial Development Agency, the Irish government body entrusted with approving foreign investments, as the best agency in Europe in 1995.

The IDA imposes tax at a rate of 10 per cent on corporate earnings considerably lower than the next lowest corporate tax rate in the EU, the UK's 33 per cent.

Since the agency was estab-



The Dublin Financial Services Centre is attracting recruits almost daily

lished in the mid-1980s, it has attracted more than 1,100 companies creating about 82,000 jobs.

The IDA concentrates on four main areas - electronics, healthcare, software and financial services. Ireland is the largest home for US software investment, and is the second most important destination for US healthcare and electronics concerns. Increasingly, in recent years, the emphasis has been on services industries.

The Dublin Financial Services Centre is attracting recruits almost daily, in part a result of the deregulation of the EU insurance market. Equally exciting are hi-tech areas such as telemarketing, making use of the advances in telecommunications.

The IDA offers support in capital, employment and training costs, and rent subsidies, as well as R&D grants, with no

restrictions on profits repatriation. The sectors were chosen to fit Ireland's needs. The industries are all growth areas, are environmentally clean and relatively sophisticated while offering opportunities to nurture indigenous industrial spin-offs.

Hewlett Packard, the US computer products group, announced a £100m investment in February to make ink-jet printer cartridges, creating 1,100 new jobs.

In May, Digital Equipment announced an expansion of its Dublin operation, where it provides a desktop support service. In July, the government confirmed that United Parcel Services, the world's largest package delivery company, was creating 900 jobs at its £6m investment at Tallaght near Dublin. The tax break is set to expire until the year 2010 and until 2005 for financial services

companies. Kieran McGowan, the IDA chief executive, says the tax regime provides "certainty into the future. We are remote from the market, there are no spin-offs.

US companies usually see Ireland as a base for European operations. Intel, the US software company, for example, has its pentium chip for the European market at Leixlip outside Dublin. Coca-Cola exports concentrate from a plant near Drogheda through Europe.

Mr McGowan says the cost to the government for each job it creates, now running at about £12,850, has come down every year since the mid-1980s.

Moreover, as Mr McGowan also points out, foreign companies now pay five times more in corporation tax than they receive in grants from the IDA.

There is still some concern that the tax regime subsidises

foreign companies, although the rate is available to any manufacturing operation, foreign or domestic.

The presence of the multinationals certainly flatters the economic picture, with many companies inflating their sales from Ireland to reduce their tax charge for the group as a whole. "Even at those rates, we're happy if they pay their taxes here. It means around £100m a year, from about 1,000 companies," says Mr McGowan.

More encouraging is the fact that about 150 companies are bringing strategic functions, such as marketing and research and development, in their Irish operations. American Home Products, the US group, has five separate investments in the republic, each from a separate division of the parent company.

The main competitors for the Irish market are the UK regions, particularly Northern Ireland's Industrial Development Board. The UK agency has shown it has deeper pockets when it comes to grant support. However, as the Northern Ireland peace process takes root, Mr McGowan is confident that while still competing with the IDB, there will be scope for co-operation, particularly in areas such as advertising and the sharing of industrial intelligence.

A working group has been set up to look at the issue. Trade missions are starting to be conducted jointly between Ireland and Northern Ireland. And most strikingly, a number of manufacturers of Northern Irish products, such as linen, have been persuaded to drop the "Irish" classification.

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8 BUSINESS LOCATIONS IN EUROPE

■ Communications: by Charles Batchelor

Incomplete connections

Congestion cost the developed industrial countries 2 per cent of their gross domestic product

Nearly three years after the formal creation of the single European market, the transport infrastructure required to help forge closer trading links between the member states of the European Union is still far from complete.

Most transport networks still serve national needs with little thought paid to the international implications of good communications links. The railways, in particular, are struggling to cope with their inheritance of incompatible systems for electric power, signalling and operations.

Road transport is more flexible, but here the concern is to ensure that the electronic road charging and management systems which are being introduced do not become a barrier to cross-border travel by adopting conflicting technologies.

The European Union is beginning to devote more attention to transport issues and has a number of initiatives under way. Not before time, according to property consultants Healey & Baker. "Following a considerable period of a European-wide strategic policy vacuum, transport infrastructure has now been recognised as the key to closer economic and social integration," it said in a study, Future Transport Developments.

The European Commission is working on a number of transport initiatives to improve infrastructure. "We can't go on as we are and hope that by 2020 the transport conditions of Europe will be no worse than they are now," Neil Kinnock, European commissioner for transport, told a recent Financial Times conference.

"Without substantial change, increasing delays, dirt, danger and cost are guaranteed," he added, quoting an OECD study which had concluded that congestion cost the developed industrial countries 2 per cent of their GDP.

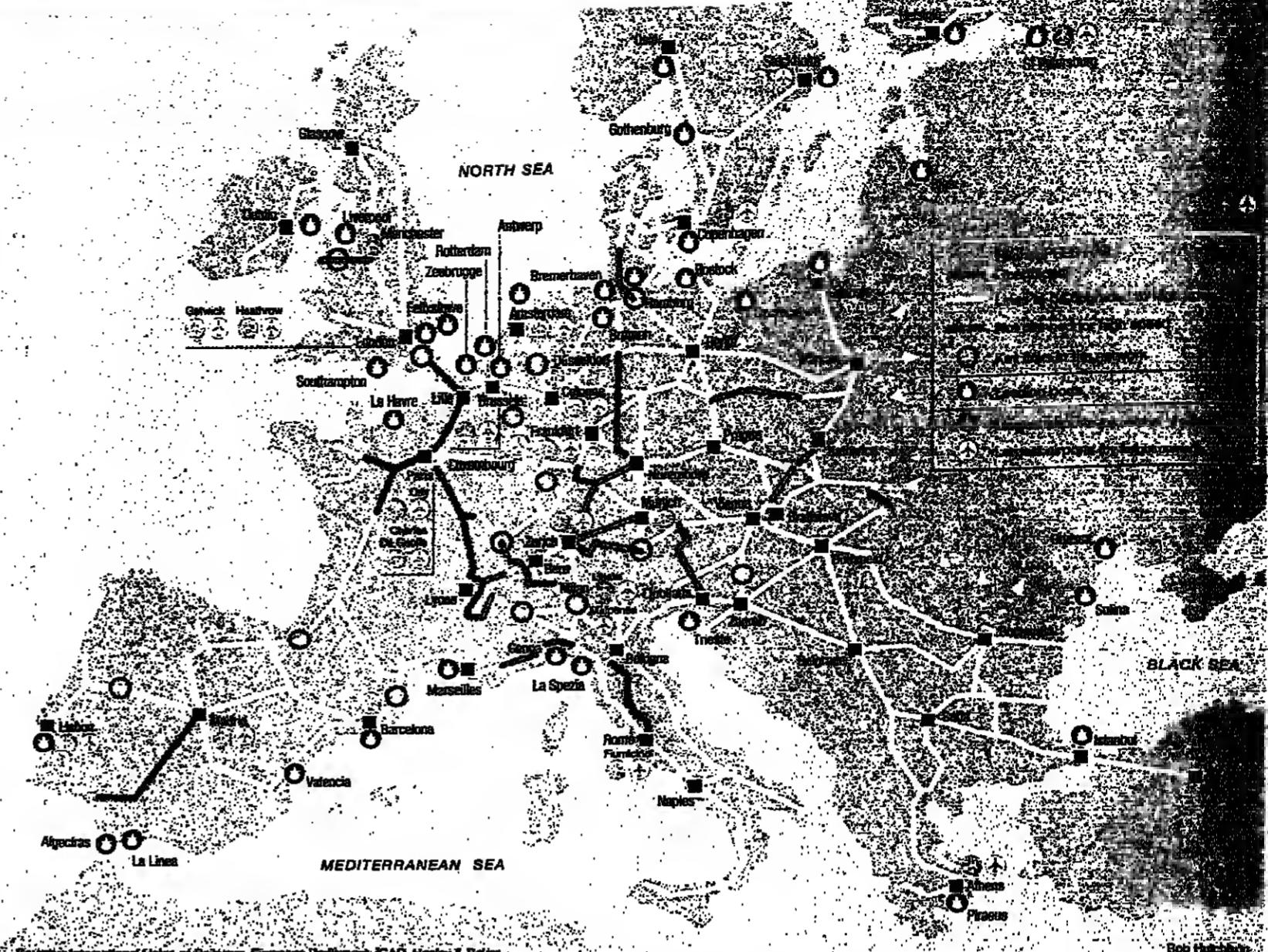
The European Union's most ambitious transport project is the creation of a Trans-European Network (Ten) of road, rail, sea and air links over the next 15 years at a cost of Ecu300bn (\$331bn). The intention is to link the countries on the edge of Europe such as Portugal and Greece, where transport networks are not highly developed, more closely with the centre. At the same time the commission wants to reduce congestion on busy routes in the heart of Europe.

A third goal is to reduce the relative dependence on roads for the bulk of passenger and freight transport. The creation of motorway networks in many countries has led to a decline in the use of other forms of transport. Cars now account for 78 per cent of all passenger travel while road transport carries 70 per cent of all freight shipments.

The Ten consist of 14 infrastructure schemes, including high-speed rail links between France and Madrid and Paris and Strasbourg; motorways between Greece and Bulgaria and Lisbon and Valladolid; and Malpensa airport in Milan. They also include four large traffic management projects.

The EU has already agreed to make available Ecu1.8bn to finance feasibility studies, loan guarantees, interest rate subsidies and, in exceptional cases, grants over the next four years. But such has been the level of requests for support from member states that a further Ecu1bn will be required, Mr Kinnock said.

One priority sector identified by Mr Kinnock is air traffic control. The ending of the cold



Source: International Union of Railways, European Parliament, ECAD, Healey & Baker

also has plans to boost the volume of goods which is moved by sea, in some EU countries more than 30 per cent of goods are moved by ship. But more could be done if port facilities could be improved, the paperwork involved in sea transport simplified and the somewhat out-of-date image of short-sea or coastal shipping improved. The commission is to publish a maritime strategy document by the end of 1995.

Crucial to any consideration of transport policy is the accurate costing of the different methods, particularly of road transport. This is a controversial area. Mr Kinnock concedes, and it depends on satisfactory definitions of environmental, safety and social costs.

The British government, for one, has backed off from plans to introduce motorway tolls because of the sensitivity of the subject with voters. Road tolls which did not go straight back into financing transport projects could be simply seen as an additional tax. But making the private motorist and the commercial haulier bear the full cost, at the point of

use, of the road network, could prove a crucial element of future transport planning.

Transport links are not the only factor which chief executives take into account when deciding on the location of an office or a factory. Issues such as the quality of the workforce, labour relations and financial incentives are also important. The increasing international

■ Property: by Simon London

Shortage and surplus

Many cities lack good modern sites, while rents for secondary space are still falling

The building boom of the late 1980s and the subsequent slump in demand for property caused by recession has left most European cities in an awkward position.

Across the continent, there is a surplus of secondary property which few tenants want to lease. Yet good modern property in the best city centre locations is already in short supply.

The nature of the shortage varies from city to city. Knight Frank & Rutley, the chartered surveyors, notes that Madrid is suffering from a shortage of modern office units of more than 1,000 sq m. Yet Stockholm is short of self-contained units of less than 3,000 sq m.

The impact on rents has been twofold. Top rents in most cities have stabilised or are on a gently rising trend. This is certainly the case in central London, which is fur-

ther ahead in its recovery than most other European cities.

Yet rents for secondary space are still falling as properties become vacant and landlords drop their asking rents in a bid to attract tenants.

Only in cities such as Moscow and Berlin, where political events knocked the property cycle out of kilter with the rest of Europe, are top rents falling fast.

The international comparison of office property costs by Jones Lang Wootton, the chartered surveyors, shows that London and Paris are still the most expensive European cities in terms of overall occupancy costs.

Converted into US dollar terms for comparison, the firm estimates that total office occupancy costs in central London are about \$1,100 to \$1,200 per sq m per year. Central Paris comes in at about \$780.

In contrast, cities such as Milan, Stockholm and Madrid all offer prime office space at little more than \$300 per sq m.

Outside London, the fastest growth in rents over the last year has been seen in Stockholm, Copenhagen and Helsinki. These cities have started to recover from the very low

annual occupancy costs are estimated at \$900 per sq m.

Although tenants have reacted against some of the more extreme rents asked by Moscow landlords, the shortage of modern office space means that property costs are likely to remain high.

Warsaw is almost equally expensive - at about \$780 per sq m according to JLW - and is also suffering from an extreme shortage of modern business space. The hope must be that more business centre office developments will come to fruition as the Polish economy develops.

Berlin is likely to offer significantly cheaper office space in the next two years as the large number of city centre office developments come to the market. Rents have already fallen by perhaps 30 per cent from the peak of two years ago.

JLW now puts total annual occupancy costs in Berlin at about \$484 per sq m.

Outside London, the fastest

growth in rents over the last

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Stockholm, Copenhagen and

Helsinki. These cities have started to recover from the very low

rental levels of two years ago. These figures provide only a rough benchmark. Firstly, property costs vary considerably within each city depending on the age and location of the building. Secondly, the terms on which buildings are let vary considerably across Europe.

For example, office occupiers in central London are usually asked to sign leases of at least 15 years' duration with upwards only rent reviews. Yet

in Paris leases are typically no more than three years with upwards and downwards rent reviews.

In addition to established city centres, new locations are vying for the attention of companies looking for headquarters buildings.

Property markets have always been stimulated by transport infrastructure, so the opening of the Channel Tunnel is likely to make subtle changes to the geography of Europe by providing direct rail links between London, Paris and Brussels.

Lille, in northern France, which is now within easy reach of all three capitals, has made the biggest push to capitalise on the tunnel. The city's "EuroLille" development of offices and shops, built around a new international train terminal, hopes to attract multi-national corporations looking for a European headquarters.

In addition to its transport network, Lille offers property cost savings over central Paris or London. Whether companies will forsake the restaurants of Brussels from the less cosmopolitan atmosphere of Lille remains an open question.

On the English side of the tunnel, developers are concentrating their efforts on attracting companies looking for distribution facilities rather than substantial headquarters buildings.

In theory, the tunnel makes it possible for companies to have a single manufacturing and distribution facility covering most of the European continent - rather than five or six warehouses in different countries.

Figures from Eurotunnel, the Channel tunnel operator, show that lorries using the tunnel rail service can get from Ashford in Kent, just north of the Channel tunnel terminal, to Dusseldorf and back in a day.

Kent has spawned a large number of business parks over the last five years as developers have sought to capitalise on the opening of the tunnel. Again, property costs are significantly lower than central London.

There are signs that European countries are becoming more sceptical about social legislation

be paid on the basis of a 35-hour week but each employee will have a "time bank" of hours which must be balanced annually.

Staff can take time off when they have built up their time banks and those with too low a balance will be able to work in neighbouring production areas to make up time. Such imaginative deals are becoming necessary if companies are to maintain their labour forces.

The alternative is large-scale redundancies, often leaving fewer people to work longer hours while those who have been laid off place an increasing social burden on the state. Some European countries have introduced restrictions on the number of hours that can be worked. In the Netherlands, for example, there is a limit of 2,500 hours annually and a maximum of eight hours a day. In Spain, the maximum working week is 40 hours. No working day may exceed nine hours and there must be a minimum of 12 hours between any two working days.

Many businesses are already moving their software and programming services to countries such as India and the Philippines where work can be commissioned and delivered electronically.

Yet at a time of increasing global competition, the European Union persists with social policies which the US has rejected as an unaffordable luxury. Unemployment in Europe has risen to 15m, 11 per cent of the workforce, but in the US it is declining, due mainly to declining real incomes and deregulation of small businesses.

European policy makers have so far resisted copying the US system, arguing that it has produced in-work poverty and provides little social protection for the vulnerable. There are signs, however, that individually, many European countries are beginning to share the UK's scepticism towards social legislation.

The European Commission itself recently noted trends towards deregulation and greater labour market flexibility across all member states.

France and Spain, for example, are beginning to use more temporary and fixed-term contracts. In Germany's most important economic sector, the metalworking industry, working time flexibility is dominating the industrial relations agenda, partly because of the 35-hour week introduced across the industry in Germany on October 1.

Companies are being forced to balance their needs for cost cutting and greater flexibility against employee demands for job security and realistic wages. Opel and Volkswagen have recently reached agreements with their workforces to introduce flexible working systems.

Opel said it was the first German car company to adapt working time to fluctuations in production. It has developed what it calls a "working time corridor" of between 30 hours and 38.75 hours weekly, averaging out at 35 hours a week.

The deal means that employees will work a maximum of eight hours a day over four or five days a week, Monday to Friday. Monthly salaries will

out as one of the few European countries warming to the deregulation trend of the US, enthusiasm for social legislation and regulation among some of its EU partners seems to be waning. While there still seems no uniform consensus about tackling European unemployment there does seem to be increasing appreciation at government level of business employment needs.

Pay comparisons between European states are difficult to make because pay levels fluctuate for different kinds of jobs but in a league table of average hourly labour costs, compiled by the Economist Intelligence Unit, Portugal has by far the cheapest rates, less than half those of Spain, the next cheapest country. The UK has the third cheapest rates with the most expensive labour in Germany.

Another pointer to pay rates can be gleaned from comparisons of seven European countries, using figures supplied by Employment Conditions Abroad, a subscription-based consultancy which supplies information to trade members. Sweden came out with the lowest

Country	Comparison of net pay adjusted for cost of living (%)	
	Junior manager	Senior manager
United Kingdom	16,403	33,004
France	20,124	50,228
Germany	22,020	52,768
Italy	18,050	47,493
Netherlands	18,467	34,945
Spain	19,519	47,437
Sweden	13,503	27,020

Junior manager = manager of a small team; Senior manager = includes chief executives and general managers who have other managers reporting to them

Source: ECA Limited

est net pay levels after they

there are signs of greater acceptance of lower wages in order to encourage the unemployed back into work. The Netherlands has introduced

exemptions and Spain and Italy have introduced initiatives to encourage young people and the long-term unemployed to take low-paid jobs.

Italy and the Netherlands have both introduced tax breaks and incentives for employers to assist recruitment. Some countries are also introducing measures to help people leave the labour market through early retirement.

French trade unions and employers' organisations have just signed an agreement which will result in 100,000 younger people being recruited this year to replace workers over 57 years and six months who will qualify for a special benefit to tide them over until they can draw their full pension at 60.

Some countries are also looking to reduce non-wage labour costs. Companies in Belgium, for example, are being given exemptions from social security contributions for hiring young unemployed people.

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